Decision 2004-014

EUB

ATCO Electric Ltd.

2003-2004 General Tariff Application
Phase I Refiling

February 17, 2004

Alberta Energy and Utilities Board

Decision 2004-014

105-01911/

ATCO Electric Ltd.

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ALBERTA ENERGY AND UTILITIES BOARD
Decision 2004-014: ATCO Electric Ltd.
2003-2004 General Tariff Application – Phase I Refiling
Application Nos. 1275494, 1275539 and 1275540

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Telephone: (403) 297-8311
Fax: (403) 297-7040

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

ATCO ELECTRIC LTD.
2003-2004 GENERAL TARIFF
APPLICATION – PHASE I REFILING

Decision 2004-014
Application Nos. 1275494, 1275539 and 1275540
File Nos. 1111-1, 1111-2, and 1111-3

1 INTRODUCTION

On October 2, 2003 the Alberta Energy and Utilities Board (Board) issued Decision 2003-071, which dealt with Phase I of the ATCO Electric Ltd. (AE) 2003-2004 General Tariff Application (GTA). In Decision 2003-071, among other things, the Board directed AE to refile its 2003-2004 GTA to reflect the findings, conclusions and directions (Directions) in that Decision by October 21, 2003.

In a letter dated October 10, 2003, AE requested that the Board revise the schedule for AE's refiling in response to Decision 2003-071 due to the time that AE required to respond to some of the directions in the Decision.

In a letter dated October 15, 2003, the Board accepted that some of the directions in Decision 2003-071 might require a significant amount of work and allowed the extension that AE requested. The Board required the refiling on or before December 1, 2003 and reply comments on the refiling by December 15, 2003.

On December 1, 2003 AE submitted a refiling (the Refiling) responding to the Board's directions in Decision 2003-071.

Comments on the Refiling were received from the City of Calgary (Calgary) and FIRM Customers[1] (FIRM). Calgary indicated that it had confined its comments to Directions which would require further action or confirmation of compliance as a result of the Transmission related portion of the Refiling, and had not confirmed compliance with, or made comments on, Directions which related solely to Distribution.

On January 26, 2004 AE filed its responses to FIRM and Calgary comments.

Accordingly for the purposes of this Decision, the Board considers that the record closed on January 26, 2004.

---

[1] FIRM represented AUMA, the AAMD&C, the Alberta Federation of REAs Ltd., AIPA, the CCA, and PICA.

2 THE REFILING

2.1 Summary of the Refiling

AE indicated that the Refiling would result in the following tariffs:

Table 1. Summary of AE's Refiling – Transmission Revenue Requirements

Transmission	**2003 $Million**	**2004 $Million**
Revenue per the Refiling (Revised Schedule 4-B-1 attached)	143.6	156.2
Payment from Balancing Pool	--	2.3
Transmission Revenue Requirement per the Refiling (Revised Schedule 4-B-1 attached)	143.6	158.5
Revenue at Existing Rates	132.6	132.6
Payment from Balancing Pool	--	2.3
Total Revenue Requirement	132.6	134.9
Payment to AE from the AESO	**11.0**	**23.6**

AE indicated that, if the Board issued its Decision on the Refiling in January, then AE would invoice the AESO in January 2004 for the 2003 tariff adjustment including carrying charges. AE calculated the amount of this adjustment would be as follows (as shown in AE's response to Board Direction 13):

Table 2. AE Transmission Refiling - Adjustment for 2003 and 2004 Carrying Charges

	$Million
2003 Adjustment to Tariff	10.985
2003 Carrying Costs	0.278
2004 Carrying Costs – January only	0.042
– February	To be calc.
Payment to AE from the AESO to Jan 31, 2004	**11.305**

AE noted that the January invoice would also incorporate the 2004 tariffs from the Refiling if approved.

Table 3. Summary of AE's Refiling – Distribution Revenue Requirements

Distribution	**2003 $Million**	**2004 $Million**
Revenue per the Refiling (Revised Schedule 12-B-1 attached)	233.4	239.5
Revenue at Existing Rates (per the GTA Application)	244.2	250.0
Adjustments per the Refiling (Revised Schedule 13-B-1 attached)	0.4	0.4
	244.6	250.4
Refund Required Over Existing Rates	**11.2**	**10.9**
% Refund Over Existing Rates	**4.6%**	**4.4%**

AE proposed that the disposition of the refund be dealt with in the manner outlined in AE's October 31, 2003 letter to the Board relating to AE's 2004 Interim Rider and Tariff Proposal.

The Refiling updated the one time refunds relating to the Booked Deferred Income Taxes per the calculation shown in response to Board Direction 26:

Table 4. AE Refiling - One Time Refund Booked Deferred Income Taxes

Transmission	$0.1 million one time refund to the AESO
Distribution	$1.9 million one time refund to customers

AE indicated that, if the Board issued its Decision on the Refiling in January, the disposition of the Transmission refund would occur on the January 2004 invoice to the AESO.

The disposition of the Distribution refund would be dealt with in the manner outlined in AE's October 31, 2003 Interim Application to the Board relating to AE's 2004 Interim Rider and Tariff Proposal with rates to be adjusted after the Board's Decision on the Refiling.

AE also noted that the Refiling incorporates placeholders for a number of items and AE recommended that the following wording to be incorporated into the approval of the Refiling:

> *The Board hereby approves ATCO Electric's Transmission revenue requirement for 2003 of $143.6 million and for 2004 of $158.5 million and ATCO Electric's Distribution revenue requirement for 2003 of $233.4 million and for 2004 of $239.5 million. These amounts are subject to revision based on the outcomes of the following matters:*
>
> - *Executive Compensation proceeding;*
> - *ATCO I-Tek Information Technology Master Services Agreement;*
> - *ATCO I-Tek Business Services and Customer Care;*
> - *Retail Sale application to Direct Energy; and*
> - *Generic Cost of Capital proceeding.*
>
> *Within 30 days of a decision being rendered on each of these placeholder items the Board requires a filing by ATCO Electric outlining the final amount to be included in the 2003 and 2004 revenue requirements for the respective items.*
>
> *The Board also requires that AE outline, in the filing, a process for the disposal of the revised amounts.*

2.2 Views of the Board

The Board has set out the views of each party and the Board's determinations in regard to AE's compliance with each of the Directions in Decision 2003-071 in the sections that follow this summary.

In this Decision, the Board has taken the view that it should defer a number of minor outstanding issues to allow for a timely Phase II filing with the approved revenue requirements and representative interim rates without further process at this time.

Accordingly, the Board considers that AE's proposed placeholder procedure should be modified in two respects.

- Firstly, the Board notes that AE has not included the placeholders for the $1,175,000 RRT contribution margin and for AE's $3,904,500 lease payment as discussed in this Decision.
- Secondly, the Board considers that the likely timing of the final adjustments to placeholders will be in late 2004.

Under these circumstances, the Board would prefer to finalize AE's 2003 and 2004 revenue requirements now and to use a deferral account treatment for all placeholders and minor adjustments to the Refiling such that they should not affect the revenue requirement that the Board approves for AE for 2003 and 2004.

Based on the matters considered in this Decision, the Board hereby approves AE's Transmission revenue requirement for 2003 of $132.6 million and for 2004 of $134.9 million and AE's Distribution revenue requirement for 2003 of $244.6 million and for 2004 of $250.4 million.

AE provided a summary of the 2003 and 2004 placeholders in response to Direction 65 that is set out in the section dealing with Direction 65 in this Decision. The placeholder amounts that are subject to revision based on the outcomes of other proceedings should be dealt with as outlined below.

Revisions to placeholders will likely arise from the following matters:

- Executive Compensation proceeding;
- ATCO I-Tek Information Technology Master Services Agreement;
- ATCO I-Tek Business Services and Customer Care;
- Retail Sale application to Direct Energy;
- $1.175 million 2003/2004 RRT contribution margin;
- Generic Cost of Capital proceeding; and
- $3,904,500 lease payment placeholder amount for 2003 and 2004 to be adjusted (if required) after Direction 10 has been complied with in AE's next GTA.

Within 30 days of a decision being rendered on each placeholder item, the Board directs AE to file its calculation of the difference between the final amount and the placeholder(s) that AE will place in the placeholder deferral account.

The Board notes that there are a number of after-the-fact adjustments required due to the deferral accounts, the Retail Sale and the placeholders that were discussed in the 2003-2004 GTA. While AE suggested that the Board should also require AE to outline, in each filing, a process for the disposal of the revised amounts, the Board considers that it would be appropriate to minimize the need for adjustment processes by allowing one filing for adjustments per year, except in an extraordinary circumstance. The filing should include all adjustments arising from deferral accounts that may be practically implemented at the time when the filing for adjustments is made.

The Board has provided both:

- A Summary of New Directions and
- A Summary of Outstanding Directions from Decision 2003-071
- (Directions that require future compliance by AE and where AE has indicated that it will comply with at the appropriate time.)

The Board directs AE to file a summary of the status of all outstanding directions when it files its next GTA.

3 DIRECTION 1 – ATCO CODE OF CONDUCT

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to indicate whether there are any Code of Conduct implications that must or ought to be dealt with in the Refiling. If there are any such implications, the Board directs ATCO Electric either to make the necessary change in the Refiling or to propose an appropriate process for addressing them.*

Views of the Parties

AE

As indicated that as a result of Board Decision 2003-040 on the Code of Conduct arising from ATCO Group Affiliate Transactions, AE has been required to:

- appoint a compliance officer;
- review and modify its accounting policy;
- compile service agreements between utility affiliates;
- undertake leasehold improvements to comply with physical separation requirements;
- emphasize the need for employees to protect confidential information; and
- apply for certain exemptions from the Code.

Some of the more significant modifications of the accounting policy arising from the Code of Conduct Decision relate to:

- inclusion of regulated affiliates;
- role of compliance officer;
- procedures for sharing and transferring employees; and
- definition of occasional and emergency services.

While not related to the implementation of the Code of Conduct Decision, AE indicated that it had made a change to the overhead rate on non-construction projects. AE indicated that this revision was part of AE's ongoing review of appropriate cost recovery rates under Policy G-5. This change, which would be effective as of November 2003, revised the overhead rate from 19% to 70%.

This change would result in additional recoveries from affiliated companies of approximately:

Table 5. AE Refiling- Additional Recoveries from Affiliated Companies

2003	$ 55,000
2004	$240,000

AE also indicated that costs being incurred by AE to comply with the Code for such things as the leasehold improvements and the administration of the service agreements were not significant. AE had not estimated the changes in costs from Affiliates that may result from changes to their Affiliate accounting policy. AE did not believe that these costs or any of the other requirements from the Code as set out above needed to be dealt with in the Refiling.

In response to comments from FIRM and Calgary, AE submitted that most of the information they requested had already been provided in the following AE correspondence with the Board:

Table 6. AE Response – Description of Correspondence re ATCO Code

Date	Description of Correspondence
October 22, 2003	• ATCO Electric's Exemption Application #1317784
October 31, 2003	• Compliance Plan (including name of Compliance Officer) • A list of affiliate transactions and their status • Common Group Employee Agreements
December 16, 2003	• Confirmation that all agreements are fully documented

To facilitate the refiling process and to avoid the requirement for further comment, AE stated that it had addressed each of FIRM's comments as follows:

i) Who the Compliance Officer is:

As outlined in Section 1.0 of ATCO's Compliance Plan filed with the Board on October 31, 2003, the Compliance Officer is W.J. (Jim) Beckett, Executive Vice President, Regulatory.

ii) A copy of the modified accounting policy includes details of the significant modifications:

- Refer to Attachment 1 (of AE's January 26, 2004 filing) for accounting policy.

Significant Modifications:

- Inclusion of regulated affiliates as outlined on page 4 of the policy under Definitions;
- Procedures for sharing and transferring employees is outlined on page 2 of the policy;
- Definition of occasional and emergency services as outlined on page 3 of the policy; and
- Role of Compliance Officer is outlined throughout the policy.

iii) Confirmation that all required service agreements have been signed:

- As outlined in AE's December 16, 2003 letter to the Board.

iv) Nature of leasehold improvements:

- The leasehold improvements required to ensure physical separation included:
- Door installation
- Wall construction
- Security card log

(The original estimate for this construction was approximately $85,000. Due to this cost, the decision has now been made to relocate the offices of the personnel and departments requiring separation. The moves are scheduled to be completed by the end of the 1st quarter in 2004.)

v) Nature of further emphasis of "…the need for employees to protect confidential information…"

- Relates to the fact that in EUB Decision 2003-040 (ATCO Group Inter Affiliate – Code of Conduct) the definition of affiliate was expanded to include regulated affiliated companies.
- The additional emphasis also relates to the need for employees to now sign a confidentiality agreement when transferring to or from an affiliate. The need arises from Section 3.3.2 of Appendix 5 of Decision 2003-040.

vi) List of exemption applications:

- On October 22, 2003, AE filed its application for certain exemptions from the Code of Conduct:
- No other applications have been made.

FIRM

FIRM noted that, in the Refiling, AE listed six items and provided some detail on the accounting policy changes as well as a matter related to the change in the overhead rate charged to Affiliates, but AE had not provided any further details nor even summary information on the types of changes. FIRM also noted that the Board directed AE to address the issue through changes or a proposed process, but AE appeared to indicate there was no further process to deal with this. FIRM disagreed and recommended that AE provide the detail necessary for the Board to deal with the issue in the Refiling and provide, at a minimum, the information as listed below:

i) Identification of the compliance officer;

ii) A copy of the modified accounting policy including details of the 4 "significant modifications to the accounting policy" listed at p. 1 of the Refiling;

iii) The signed copies of the service agreements between utility affiliates or, at the very least, confirmation that all of the required service agreements have been signed;

iv) The nature of the leasehold improvements, by Affiliate, that are required to comply with the physical separation requirements. AE should also indicate when the leasehold improvements would be completed;

v) The nature of the further emphasis of "...the need for employees to protect confidential information" relative to what existed previously; and

vi) A list of each specific application that AE had made regarding exemptions from the Code of Conduct and if any further applications were expected.

FIRM recommended that once the information was received, all parties should be given additional time to review and comment, if necessary, on this information. A secondary alternative that FIRM did not recommend, but would support, if AE were unable to provide the information in the context of the Refiling, was to set up a separate module to deal with this issue on an expeditious basis. Finally, FIRM recommended that the additional revenue of $55,000 and $340,000 for 2003 and 2004 respectively, noted by AE at Page 2 of its filing, be incorporated into the Board decision on those matters.

3.1 Views of the Board - DIRECTION 1 – ATCO CODE OF CONDUCT

The Board notes that AE indicated that costs being incurred by AE to comply with the Code for such things as the leasehold improvements and the administration of the service agreements were not significant. The Board notes that AE had not estimated the changes in cost from Affiliates that may result from changes to their Affiliate accounting policy.

Under Direction 1 in AE's Refiling, the Board notes that AE indicated that the only change to 2003 and 2004 revenue requirement that it had made in the Refiling was a change to the overhead rate on non-construction projects from 19% to 70% as part of AE's ongoing review of appropriate cost recovery rates under Policy G-5 effective as of November 2003.

While AE has not provided details of the change in policy that results in additional recoveries from affiliated companies of approximately $55,000 in 2003 and $340,000 in 2004, the Board accepts that AE would not have made such a change that increases the net costs to its unregulated affiliates if not warranted.

As AE has not indicated that any further changes to 2003 or 2004 revenue requirement are necessary, the Board agrees with AE that the code of conduct matters, including those raised by FIRM, are not strictly a matter to be determined in this Refiling in regard to AE's 2003-2004 Phase I Revenue Requirement.

Therefore, the Board considers that AE has complied with Direction 1.

However, the Board agrees with FIRM that further examination to ensure AE's approach to compliance with Decision 2003-040 may be required. In that regard, the Board notes that, in Decision 2003-040, the Board directed as follows:

> The Board directs each ATCO Utility to file its initial Compliance Plan with the Board by October 31, 2003.

> Rather than specific directions and a detailed review of the Compliance Plan by the Board, the Board considers it preferable to leave the obligation of the compliance plan to ATCO, and instead focus on the results, the Compliance Report and an Officer's Certificate. The Board will address the Compliance Report and the Officer's Certificate in the next section of this Decision.[2]

Accordingly, the Board considers that after AE files its annual Compliance Report, any of the concerns that FIRM expressed that are not dealt with in the Compliance Report should be raised.

4 DIRECTION 2 – IMPACT OF RETAIL SALE

The following direction was provided in Decision 2003-071:

> *If the sale of retail functions is approved, the Board directs AE, by way of a rider application, to promptly file for approval any adjustments that are required to reflect the effect of the sale on the 2003 and 2004 test years. In any event, the Board directs AE to provide an update and a recommended process to deal with any required adjustments within 30 days of a Board decision approving the proposed sale.*

Views of the Parties

AE

AE indicated that it would comply with this direction if a favourable Decision is received and the proposed transfer of the subject retail function proceeds.

FIRM

Based on FIRM's understanding of Decision 2003-098 dated December 4, 2003, regarding the sale, any compliance filing requirements arising out of that Decision would not impact the Board direction in Decision 2003-071. FIRM recommended that AE be required to provide details of the process to deal with the changes to AE as a result of the Retail Sale decision by January 3, 2004.

4.1 Views of the Board - DIRECTION 2 – IMPACT OF RETAIL SALE

In a letter dated January 5, 2004, AE noted FIRM's comments on Decision 2003-098, wherein FIRM recommended that AE be required to provide details of the process to deal with the changes to AE as a result of the retail sale decision by January 3, 2004. AE noted that there was more than one decision relating to the retail sale and due to their inter-related nature, AE was not in a position by January 3, 2004 to provide the details requested. AE indicated that it would provide an update on the status of the retail sale by January 16, 2004, which was within 30 days of the December 18, 2003 issuance of Decision 2003-106 (Approval of Direct Energy Regulated Services, Electric Regulated Rate Tariff and Gas Default Rate Tariff)[3] and Decision 2003-108 (ATCO Gas 2003 Gas Rate Unbundling).[4]

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[2] Decision 2003-040, page 40

[3] Application No. 1302109

[4] Application No. 1303682

In a letter dated January 16, 2004, AE indicated that ATCO and Direct Energy continue to be in discussions focused upon the closing of the Retail Sale. Significant factors in the ongoing discussions are the commercial consequences of the Board's retail sale and tariff decisions and the impact of the City of Calgary's application for leave to appeal Decision 2003-071.

Accordingly, the Board directs AE to provide an update and a recommended process to deal with any required adjustments within 30 days of the closing of the sale.

5 DIRECTION 3 – EXECUTIVE COMPENSATION

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to advise parties as to the implications of the Executive Compensation study that must be dealt with in the context of the Refiling and to clarify ATCO Electric's approach to placeholders and any adjustments to costs for ATCO Electric in 2003 and 2004 arising from the Executive Compensation proceeding. As part of ATCO Electric's reply, the Board directs ATCO Electric to supply any necessary recommended wording that should be incorporated into the approval of the Refiling to deal with this issue. The Board considers that any approval of operating costs in this Decision are subject to revision based on the costs approved by the Board with respect to Executive Compensation in that application.*

Views of the Parties

AE

AE indicated that there were no implications for the executive compensation study, in the context of the Refiling.

The study is being dealt with in the context of the ATCO Executive Compensation Application, the process for which has been set out by the Board. The current schedule has an oral hearing on this application commencing March 3, 2004. The placeholders for AE were outlined in Section 4.0 of ATCO's August 13, 2003 application and were:

Table 7. AE Refiling – Placeholders for Executive Compensation

2003 Forecast Compensation	$891,000
2004 Forecast Compensation	$928,000

AE's Refiling includes these amounts in the 2003 and 2004 revenue requirements. In the event that the Board's Decision relating to the Executive Compensation Application approves some other amount, AE would make a Refiling subsequent to that decision incorporating the impact of the approved executive compensation amounts.

FIRM

FIRM noted that the Board has set down a process to deal with Executive Compensation.

5.1 Views of the Board - DIRECTION 3 – EXECUTIVE COMPENSATION

The Board accepts AE's indications that, since the Executive Compensation Application placeholders are used in AE's refiled revenue requirement, there are no further implications for the Refiling.

Any changes in AE's executive compensation placeholders from the Refiling's 2003 Forecast of $891,000 and the 2004 Forecast of $928,000 that arise from the Executive Compensation proceeding will be dealt with in a later filing. Therefore, the Board considers that AE has complied with Direction 3.

6 DIRECTION 4 –2004 RETURN AND CAPITAL STRUCTURE

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to use placeholders in its Refiling for 2004 rate of return and capital structure components that are equal to the 2003 rate of return and capital structure components approved by the Board in this Decision.*

AE

AE referred to its Revised Schedule 26-E-1, which indicated that, as directed, for 2004, it used a return on equity of 9.4% for both Transmission and Distribution. For 2004, AE used a common equity ratio of 32.0% for Transmission and 35.0% for Distribution. For 2004, AE used a preferred share component of $50.1 million or 6.4% for Transmission and $43.3 million or 7.0% for Distribution. AE used its forecast debt for the remainder of the capital structure.

FIRM

FIRM stated that it examined the revised Schedule 26-E-1 showing the proposed capital structure for Transmission and Distribution for 2004, as well as the Board's comments on the use of placeholders for 2004 (p. 9 of Decision 2003-071) and the specific placeholders determined for 2004 (pp. 45 – 47). FIRM noted that at p. 46 (referenced to footnote 60) the Board referred to a Transmission preferred share ratio of 6.3% and a common equity ratio of 32% (p. 46) for 2004.

FIRM indicated that there was no reference to a placeholder long-term debt ratio for Transmission and that by default, the placeholder debt ratio for Transmission should be 61.7%, which differed slightly from that provided by AE at p. 6 of its Refiling.

FIRM also indicated that it did not object to AE's calculations.

FIRM stated that for Distribution, there was no reference to either preferred share or long-term debt ratios, but the Board did reference a common equity placeholder ratio for Distribution of 35% for 2004. FIRM acknowledged AE included a preferred share ratio of 7.0% and long-term debt ratio of 58% for 2004 and that FIRM did not object to AE's calculations.

6.1 Views of the Board - DIRECTION 4 –2004 RETURN & CAPITAL %

The Board notes that AE used the 2003 common equity component for its 2004 capital structure. The Board also notes that in Direction 16, it directed AE "to use the preferred share component that it forecast in its Application".

The Board had intended that AE use its forecast dollar amount of preferred shares, and notes that this is what AE has done. The Board also intended the debt component of the 2004 capital structure to be the residual after accounting for the common equity component that the Board directed and AE's forecast preferred equity component and notes that this is what AE has done.

Therefore, the Board considers that AE has complied with Direction 4.

7 DIRECTION 5 – RROT CONTRIBUTION MARGIN

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to deal with this contribution margin from RROT matter in its 2003 RROT Non-energy Application.*

Views of the Parties

AE

This contribution margin was dealt with in AE's 2003 RROT Non-energy Cost Application of November 2002 at pages 6-8 to 6-9 (refer to Attachment_BD_05).

FIRM

FIRM did not disagree with the approach of collecting the $1,175,000 from RROT customers on a per customer basis, based on the latest forecast of RROT customers for 2003.

7.1 Views of the Board - DIRECTION 5 – RROT CONTRIBUTION MARGIN

In Decision 2003-071, the Board indicated:

> The Board notes that its direction to AE to address in its 2003 RROT application the issue of whether or not, and if so, how the RRO Share of DT Fixed Costs and Overhead should be increased to a higher level may impact the level of AE's 2003 DT revenue requirement.
>
> If the Board were to approve an increase in the RRO share of DT Fixed Costs and Overhead so that RRO customers pay closer to their fully allocated costs, then levels of DT Fixed Costs and Overhead would have to be reduced accordingly. Therefore, the Board considers that the levels of DT Fixed Costs and Overhead and the contribution margin approved in AE's 2003 and 2004 DT revenue requirements will be placeholders until a final determination on the matter.
>
> Accordingly, the Board approves placeholders in the amount of $1.175 million as the amount of the contribution margin from the RROT for purposes of the DT revenue requirement for both 2003 and 2004.

The Board notes that AE has indicated that these matters will be dealt with in the 2003 Non-Energy RRT proceeding. The Board continues to consider this to be the proper forum to examine both the appropriate magnitude of the RRT contribution margin that forms a revenue offset to the DT revenue requirement and the method of collection through the RRT.

The Board considers that AE should include the placeholder for the $1.175 million for both 2003 and 2004 in its placeholder summary until these matters are dealt with (See Direction 65). After the matter is dealt with the placeholder deferral account may by adjusted as appropriate.

8 DIRECTION 6 – ATCO I-TEK VOLUMES AND COSTS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to rebase the volume forecast for 2003 and 2004 using 2002 actual billing units. For CPU minutes and MVS gigabyte-months, the Board directs ATCO Electric to base the forecast on the percentage growth in number of customers for 2003 and 2004. For voice services, laptops, PCs, monitors and printers, the Board directs ATCO Electric to tie its forecast to the number of FTEs as a reasonable proxy for the number of users. Further, the Board directs ATCO Electric to revise its forecast of I-Tek charges for 2003 and 2004 based on the foregoing method and the charges approved as a result of the 7.5% reduction ordered in Decision 2002-069.*

Views of the Parties

AE

AE indicated that the Refiling calculations were in Schedule BD-06.

In response to intervener comments, AE indicated that, as outlined in Schedule D of the I-Tek MSA, the I-Tek prices are quoted in 2001 dollars and are subject to annual adjustments. These 2001 prices were therefore the basis for the prices used in the 2003-2004 GTA. As outlined in response to CAL-ATCOGTA-47, all operation and maintenance accounts included in the application were inflated at the inflation factors outlined at page 5-6 of the Application. The exceptions noted in the response did not include accounts for I-Tek charges. As a result, for the 2003 rates, the I-Tek 2001 prices were inflated by the inflation factors for 2002 and 2003 and for 2004 rates, the I-Tek 2001 prices were inflated by the inflation factors for 2002, 2003 and 2004. Therefore the record does show that the 2003 and 2004 MSA rates require inflation for 2002 to be applied and the numbers AE has for an I-Tek placeholder are appropriate.

Calgary's concern that AE has not reduced the I-Tek pass-through charges is unfounded. The direction required AE to rebase the I-Tek volume forecast and reduce the placeholder amount for the 7.5% reduction ordered in Decision 2002-069.

The pass-through charges referred to by Calgary relate to I-Tek charges that flow through to I-Tek Business Service Costs. There was no direction by the Board on the placeholder amount being used by AE for I-Tek Business Services.

As a result, AE considered that it has complied fully with Board Direction No. 6 from the Board Decision and AE does not feel any further process is required in order for the Board to approve the ATCO I-Tek placeholder amount.

FIRM

FIRM noted that the "inflation rates" used for the ATCO I-Tek unit rates were based on inflation rates of 2% for 2002 and 2003 and 2.2% for 2004, thus the 2003 "inflated" unit rate applied to the 2003 (MSA) rate (column (h)) was the compound inflation rate for 2002 and 2003 while the 2004 "inflated" rate applied to the 2004 (MSA) rate (column (j)) was the compound inflation rate for 2002, 2003 and 2004.

While FIRM recognized these calculations are placeholders, FIRM did not agree that the 2002 inflation rate should be compounded with the 2003 and 2004 rates to derive the 2003 and 2004 unit rates as this method of calculation appeared to assume that the 2003 and 2004 MSA rates were based on a 2001 MSA rate that requires compounding of the 2002 and 2003/2004 inflation rates. FIRM further stated that there did not appear to be any evidence to suggest that a 2001 MSA rate was being used.

FIRM recommended that the 2003 "inflation" rate to be applied to the 2003 MSA rate should simply be the 2003 inflation rate of 2% and the 2004 "inflation" rate to be applied to the 2004 MSA rate should be the 2003 and 2004 inflation rates of 2% and 2.2%.

FIRM stated it was prepared to not oppose AE's calculations of the placeholder amounts if AE could show where on the record 2003 and 2004 MSA rates require inflation for 2002 to be applied.

Calgary

Calgary stated that the revised I-Tek charges reflected the 7.5% reduction directed in Decision 2002-69, but that the amounts shown in this Direction did not appear to include the I-Tek pass-through charges included in the I-Tek Business Services placeholder. Calgary stated that based on the response to CAL-ATCOGTA-16(c) and (d) the amounts would be $5.578 million (3.078 +2.500) million for 2003 and $5.145 million (3.145 + 2.000) in 2004. In Decision 2002-95 the Board directed that the pass-through charges should be reduced by 11.1 % (2.2.5 page 7) together with the rest of the Singlepoint (I-Tek Business Services) charges. Calgary further noted that in this compliance filing it did not appear that AE had reduced the I-Tek pass-through charges included in the placeholder by either the 7.5% or the 11.1%.

Calgary also recommended that the Board consider some further process to allow examination of that material.

8.1 Views of the Board - DIRECTION 6 – ATCO I-TEK VOLUMES AND COSTS

The Board is persuaded by AE's views that it has substantially complied with the Direction. The Board considers that further process would be required to deal with the issues raised by Calgary and FIRM customers. However, the Board notes that these are placeholders and subject to adjustment in any event.

The Board considers that, if necessary, the intervener issues should be raised in the process that deals with the finalization of the placeholders to reflect the results arising from the ATCO I-Tek Information Technology Master Services Agreement proceeding and/or the ATCO I-Tek

Business Services and Customer Care proceeding. This approach will allow for a Phase II filing and more representative interim rates on a timely basis without further process at this time.

Therefore, the Board considers that AE has complied with Direction 6.

9 DIRECTION 7 – I-TEK OPERATING AND CAPITAL COSTS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to clearly set out the placeholder dollar amounts, and the volumes that led to them, in a Table with a detail level similar to that used by Calgary in its table included as Table 7 of this Decision. As indicated above, the placeholder amounts will be adjusted, if necessary, when the results of the MSA and Benchmarking Modules are available.*

Views of the Parties

AE

The placeholder amounts and the volumes that led to them are itemized in detail on Schedule BD-06. A working capital placeholder outlined on page 24 of Decision 2003-071 has also been incorporated. This placeholder relates to the determination of who will be responsible for these capital costs. The revised placeholder amounts are:

Table 8. AE Refiling – ATCO I-TEK – Placeholder Amounts ($000)

	2003	2004
Placeholder Amounts (per Schedule BD-6)	9,972	9.465

The allocations of these placeholder amounts to Transmission O&M and Capital and Distribution O&M and Capital are:

Table 9. ATCO I-TEK – TRANSCO and DISCO O&M and Capital

	2003		2004	
	% (Schedule 1)	$000	% (Schedule 1)	$000
Operation & Maintenance				
Transmission	24.9	2,483	23.7	2,243
Distribution	51.6	5,146	50.4	4,770
	76.5	7,629	74.1	7,013
Capital				
Transmission	9.0	897	10.1	956
Distribution	14.5	1,446	15.8	1,496
	23.5	2,343	25.9	2,452
Total Transmission & Distribution	100.0%	9,972	100.0%	9,465
Working Capital				
Transmission		158		139
Distribution		2,931		2,526
Total Transmission & Distribution		3,089		2,665

AE indicated that the impact on revenue requirement for these placeholders is outlined in Schedule 2 of the Refiling and is:

Table 10. AE Refiling – ATCO I-TEK – Impact on Revenue Requirement

	2003	2004
	$000	
Transmission	2,548	2,432
Distribution	5,438	5,591

In response to intervener comments, AE indicated that, in Board Direction No. 7, AE shows the following capital amounts as placeholders:

Table 11. AE Refiling – ATCO I-TEK Capital and Working Capital Placeholders

	2003 $000	2004 $000
Capital		
Transmission	897	956
Distribution	1,446	1,496
	2,343	2,452
Working Capital		
Transmission	158	139
Distribution	2,931	2,526
	3,089	3,665

The capital costs shown by AE as a placeholder represents the indirect computer services costs that are charged to capital projects through AE's ES&G rate. The amount used as a placeholder has been allocated as a percentage of the total placeholder amount of $9,972 and $9,465 from Board Direction No. 6. The allocation used the allocation percentages shown on Schedule 1 in AE's response to Board Direction No. 7. The information used to calculate the percentages was outlined in Schedule 29-B-1 revised per information response to CAL-ATCOGTA-92 in AE's 2003-2004 GTA.

As these costs were for indirect computer services allocated to all capital projects, AE believes that the composite depreciation rate used to calculate depreciation is appropriate for a placeholder. It should also be noted that AE used the before-tax rate when calculating return so that income tax has not been excluded, as FIRM asserts.

The working capital amounts that AE used as a placeholder are for software additions and come straight from the Board Decision as follows:

Table 12. AE Refiling- ATCO I-TEK – Working Capital Derivation

	2003 $000	2004 $000
Transmission Placeholder (Per Page 24 of Decision)	158	139
Distribution Placeholder (Per Page 24 of Decision)	2,931	3,526
Less Disallowance by Board (Page 90 of Decision)		
• Load Settlement Costs: applied for	<2,000>	<3,000>
approved	2,000	2,000
• Disallowance	–	<1,000>
Final Distribution Placeholder (Per Board Decision No. 6)	2,931	2,526

AE observed that the City of Calgary makes assertions that AE's numerous amounts in the refilings do not tie and as a result AE did not demonstrate compliance with the Board Direction in these matters. Each assertion and AE's response is detailed below:

(i) That the amounts shown on Board Direction No. 7, Schedule 1, do not agree with the amounts shown on Schedule 1 of Board Direction No. 6.

First, the amounts shown on Board Direction No. 7, Schedule 1 came straight from AE's application and were outlined in response to CAL-ATCOGTA-92.

Second, this schedule was used as a means of allocating the revised total placeholder amounts of $9,972 and $9,465 from Board Direction No. 6 as between O&M and Capital (i.e. for indirect computer services).

Third, the totals on this schedule of $11,002,000 and $10,557,000 do, in fact, agree to the GTA forecast amounts, prior to the reduction in rates of 7.5% shown in Board Direction No. 6. The actual amounts on Board Direction No. 6 were $11,005,485.09 and $10,556,325.97 with the difference from the amounts shown on Schedule 1 from Board Direction No. 7 being due to rounding.

(ii) That based on AE's March 28, 2003 letter, the amount shown as capital costs on this schedule were not IT capital but rather were "indirect computer service costs that are allocated to capital projects through AE's ES&G rate". Based upon the March 28, 2003 letter, those amounts were not to be placeholders, while the amounts provided for capital in Board Direction No. 7, Schedule 1, were to be placeholder amounts.

First, as can be seen from the cover page of AE's March 28, 2003 letter, it is perfectly clear that these indirect costs were considered to be placeholder amounts. AE states:

> "Therefore the pricing component of these costs (indirect computer services costs) would be impacted by the IT Benchmarking module. As such these amounts should be considered to be a placeholder in ATCO Electric's 2003-2005 GTA."

Second, the City of Calgary implies that the amounts provided for capital in Board Direction No. 7, Schedule 1 were to be placeholder amounts. As AE has already stated, the amounts on Schedule 1 came from the Application. AE has demonstrated that these numbers of $11,002 and $10,559 from Schedule 1 have been revised to comply with Board Direction No. 6. This results in the updated placeholder amounts of $9,972 and $9,465. Board Direction No. 7 takes this number and allocates it between O&M and Capital (i.e. indirect computer services) as well as between Transmission and Distribution.

(iii) That based on AE's March 28, 2003 letter, the amount shown as capital costs on this schedule were not IT capital but rather were "indirect computer service costs that are allocated to capital projects through AE's ES&G rate". Based upon the March 28, 2003 letter, those amounts were not to be placeholders, while the amounts provided for capital in Board Direction No. 7, Schedule 1, were to be placeholder amounts.

First, as can be seen from the cover page of AE's March 28, 2003 letter, it is perfectly clear that these indirect costs were considered to be placeholder amounts. AE states:

> "Therefore the pricing component of these costs (indirect computer services costs) would be impacted by the IT Benchmarking module. As such these amounts should be considered to be a placeholder in ATCO Electric's 2003-2005 GTA."

Second, the City of Calgary implies that the amounts provided for capital in Board Direction No. 7, Schedule 1 were to be placeholder amounts. As AE has already stated, the amounts on Schedule 1 came from the Application. AE submitted that it has demonstrated that these numbers of $11,002 and $10,559 from Schedule 1 have been revised to comply with Board Direction No. 6. This results in the updated placeholder amounts of $9,972 and $9,465. Board Direction No. 7 takes this number and allocates it between O&M and Capital (i.e. indirect computer services) as well as between Transmission and Distribution.

Table 13. AE Refiling – Capital and WC by TRANSCO and DISCO

	Transmission		Distribution	
	2003	2004	2003	2004
Capital (Board Direction No. 7, Page 9 of 73)	897	956	1,446	1,496
Working Capital (Board Direction No. 7, Page 9 of 73)	158	139	2,931	2,526
Additions (Per Board Direction No. 7, Schedule 2)	1,055	1,095	4,377	4,022

AE noted that the total placeholder amounts from Board Direction No. 6 are for $9,972,275.57 and $9,464,713.90 and this agrees to the total O&M and Capital placeholder amounts on Board Direction No. 7 of $9,972,000 and $9,465,000.

AE submitted that it had thus demonstrated that the total placeholder amount from Board Direction No. 6 agrees to the placeholder amount shown on Board Direction No. 7. The City of Calgary mistakenly tried to take a component of the placeholder amount from Board Direction No. 7 (capital) and reconcile it to a different component of the placeholder amount on Board Direction No. 6 (IT Other).

In conclusion, AE submitted that both FIRM and the City of Calgary's assertions were without foundation and that AE had clearly demonstrated compliance with the Board Direction. As a result, the placeholder amounts for the I-Tek costs used in the refiling should be approved.

FIRM

FIRM did not recommend that the additional working capital calculations provided by AE should be included in this Decision, especially since it appeared that the detail of the calculations of the secondary impact of working capital had not been shown, the depreciation rates appeared to be low for I-Tek projects, and the income tax costs had been excluded. Also, FIRM recommended that the Board continue to use the capital amounts determined at p. 24 of the Decision subject to adjustment when the MSA and Benchmarking proceedings were completed.

Calgary

Calgary stated that AE had not demonstrated compliance with this Direction for the following reasons:

1. The amounts shown on Board Direction 7, Schedule 1 did not agree with the amounts shown on Schedule 1 of Board Direction 6 either as forecast or revised. Based on AE's letter of March 28, 2003 the amounts shown, as capital costs on this schedule were not IT capital, but rather "indirect computer service costs that [were] allocated to capital projects through AE's ES&G rate". Those amounts were not to be placeholders. While the amounts provided for Capital in Board Direction 7, Schedule 1, were to be placeholder amounts.
2. The capital shown on Board Direction 7 Schedule 1 did not agree with the additions shown on Schedule 2, nor is it possible to reconcile those amounts to the amounts shown on Board Direction 6 Schedule 1 page 2 of 2 line "Other IT Costs (Dist. Appl., Service Request, Appl. M&E, etc.)". While the capital expenditures and the rate base additions might not necessarily be the same the revised response to Schedule 10-B-4 did not show amounts in the 2003 opening CWIP balance that would account for the difference for Transmission. In addition, the amounts shown on 25-B-1 did not agree with the additions on Schedule 2.

9.1 Views of the Board - DIRECTION 7 – I-TEK OPERATING AND CAPITAL

The Board considers that AE has substantially complied with this direction, but the Board acknowledges that further process may be required to deal with the issues raised by Calgary and FIRM customers. However, the Board notes that these are placeholder amounts.

The Board does not consider that the second order effects, such as impact on revenue requirement for these placeholders, were originally intended to be placeholders. However, upon review of this issue as raised by interveners, the Board now considers that they should be included as placeholders. This approach will negate the need for any further process at this time and will allow for a Phase II filing and more representative interim rates on a timely basis.

Accordingly, the Board considers that, if necessary, the intervener issues raised by Calgary and FIRM should be raised in the process that deals with the adjustment of the placeholders to reflect the results arising from the ATCO I-Tek Information Technology Master Services Agreement proceeding and/or the ATCO I-Tek Business Services and Customer Care proceeding. The Board will make any necessary adjustments to the placeholders and the results upon completion of that adjustment process.

Therefore, the Board considers that AE has complied with Direction 7.

10 DIRECTION 8 – I-TEK FUTURE DIRECTION

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to provide the impact on I-Tek volumes in the same manner as contracted (e.g. mainframe services, distributed services, network services, workstation services, and application services) in all future IT application or technology project business cases.*

10.1 Views of the Board - DIRECTION 8 –I-TEK FUTURE DIRECTION

This direction required compliance by AE subsequent to the Refiling. In the Refiling, AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

11 DIRECTION 9 – LEASE RENEWAL INFORMATION

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to explain and supply the information that ATCO Electric had, at the time of signing the lease renewal, to satisfy itself that the rates were at or below market value.*

Views of the Parties

AE

AE indicated that the ATCO Centre was built in the early 1980s, the lease covers a 5-year term and the square footage being leased is approximately 285,000 square feet. There were few buildings in the Edmonton market that would be comparable so at the time of signing the lease, AE looked at the following lease deals to support that AE's lease rates were at or below market value:

Table 14. AE Refiling – Lease Deals Supporting AE's Lease Rates

Enbridge Place: Commenced June 15, 1998 – 15 year term 170,000 square feet		
	Net rent:	$13.00 per square foot – June 1998 to May 2003
		$15.00 per square foot – June 2003 to May 2011
		$17.00 per square foot – June 2008 to May 2013
No tenant improvement allowance Building constructed in 1979		
Telus Plaza: Commenced June2001 – 15 year term 870,000 square feet		
	Net rent:	$9.50 per square foot – June 2001 to May 2006
		$10.50 per square foot – June 2006 to May 2011
		$11.50 per square foot – June 2011 to May 2016
No tenant improvement allowance Building constructed in 1972		

The Enbridge building is $15 per square foot during AE's test period but is for a smaller square footage. The Telus building is $9.50 per square foot but is for a building more than 10 years older than the ATCO Centre, and is for significantly more square footage.

AE indicated that as a result of those comparisons, AE felt that the $13.70 per square foot included in revenue requirement for the new lease was reasonable.

In response to intervener comments, AE indicated that the information provided in AE's refiling was the information AE relied upon at the time of filing its 2003-2004 GTA. The rates confirmed in the attached letter to its Refiling (Attachment 4) from Altus Group vary slightly for Telus Plaza. The difference doesn't alter the conclusion AE reached at the time of its filing. That conclusion was that the $13.70 per square foot included in revenue requirement was reasonable when compared to the $15.00 to $17.00 per square for the Enbridge Building and the $8.00 to $9.00 per square foot for Telus over the term of the AE lease.

Comparisons to these buildings were done as reasonable comparisons for the Edmonton market. These buildings are Class A buildings as is the ATCO Centre. Given the documentation attached and the information provided, no further comment or process is required and the $13.70 per square foot included in revenue requirement is reasonable.

FIRM

FIRM stated that AE provided a very basic summary of its analysis. FIRM had expected AE to at least provide the executive summaries of all the leases AE had used as rental comparables during the period in question. FIRM also stated that it expected this to include third party information or documents AE used or relied upon as a basis of its forecasts.

FIRM recommended that the Board require AE to provide further documentation and that FIRM would then provide further comment if necessary.

Calgary

Calgary submitted that the information provided by AE did not support $13.70 per square foot for the following reasons:

1. Both comparables provided by AE related to leases prior to the period of the ATCO lease.
2. One purported comparable was for smaller square footage with rates varying from $13 to $17/sq ft over 15 years while the other purported comparable was for significantly more square footage but at rates varying from $9.50 to $11.50/sq ft.
3. ATCO referenced the age of the building rather than the class of building, i.e. AA, A, B, C etc. Age is generally not a determinative factor in classification and it is the class of building that determines comparability. AE did not provide advice as to the class of the ATCO Building or what class the other buildings were. It is therefore not possible to determine the comparability of the buildings.

11.1 Views of the Board - DIRECTION 9 – LEASE RENEWAL INFORMATION

The Board agrees with interveners that AE's two "comparables" do not provide sufficient information to justify committing to AE's lease. The "comparables" may or may not be the same class of building as the ATCO Centre and certainly have different terms and time frames than the AE lease.

The Board considers that the analysis provided by AE should have been much more detailed before AE committed customers to pay almost $4 million per year for five years. The intent of the Board's wording in Direction 9 was that the amounts could be considered as placeholders if the information was not sufficient to satisfy the Board as to the lease charges. Accordingly the Board considers that the $3,904,500 annual lease payment should be included as a placeholder amount for 2003 and 2004 to be adjusted after Direction 10 has been complied with in AE's next GTA. The Board has directed this in its findings on Direction 65 (See Direction 65).

However, the Board notes that Direction 9 was only to provide the information that AE had at the time it committed to the lease. While the Board has concluded that the information is inadequate to justify the annual lease payment, AE has provided the information as directed by the Board.

Therefore, the Board considers that AE has complied with Direction 9.

12 DIRECTION 10 – LEASE RENEWAL - NEXT GTA

The following direction was provided in Decision 2003-071:

> The Board directs ATCO Electric, at the time of its next GTA, to provide an independent, third party report demonstrating that the lease rates were at or below market value when renewed.

12.1 Views of the Board - DIRECTION 10 – LEASE RENEWAL - NEXT GTA

This direction required compliance by AE subsequent to the Refiling. In the Refiling, AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

13 DIRECTION 11 – AFFILIATE TRANSACTIONS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to explain any other affiliate transactions in excess of $100,000 that were included in the 2003-2004 revenue requirements that were not disclosed in the 2003-2004 GTA.*

Views of the Parties

AE

There were no affiliate transactions included in the 2003-2004 revenue requirements that were not disclosed in the 2003-2004 GTA. The only exception to this was for affiliate transactions with ATCO Gas and the North of 60 companies. These transactions with regulated affiliates were not considered to be an affiliate transaction to be included in the affiliate transaction schedule at the time of the application.

The amounts for these transactions were:

Table 15. AE Refiling - Affiliate Transactions Amounts

	2003	2004
	$000	
North of 60 Companies		
• Recovery of labour costs per Schedule 2—2 of application	<353>	<381>
• Overhead recovery 150%	<176>	<190>
Total Revenue Requirement Recovery (included in application but not separately disclosed)	<529>	<571>
ATCO Gas		
• Rental Revenue (included in revenue offsets)	<200>	<200>
• Office Service Costs	150	150
Total Revenue Requirement Cost <Recovery> (included in application but not separately disclosed)	<50>	<50>

In response to Calgary's comments, AE indicated that the information provided in response to Board Direction No. 11 could be verified to the information provided in the proceeding.

The information relating to the recovery of labour costs for the North of 60 companies was outlined in Schedule 2-B-2 of ATCO Electric's 2003-2004 GTA. The labour loading rate of 50% was the loading rate in place at the time of the 2001 GTA and had not changed in the 2003-2004 application. This rate can be seen in Schedule 29-B-10 of the application. The remaining recoveries of $50,000 from ATCO Gas were not considered significant enough to warrant further support at this stage of the proceeding.

FIRM

FIRM stated that while this Direction did not require disclosure in this Refiling, AE provided information on the amounts included in the application, and that this Direction did not require action for this proceeding.

Calgary

Calgary stated that compliance with this Direction could not be verified as there was no way to check the accuracy of the information provided by AE.

13.1 Views of the Board - DIRECTION 11 – AFFILIATE TRANSACTIONS

While the Board considers that AE has substantially complied with the direction, the Board considers such transactions with regulated affiliates to be affiliate transactions and, therefore, should be clearly set out in an affiliate transaction schedule in future AE GTAs. This will allow the information provided by AE to be verified during the proceeding before the GTA decision is issued.

Therefore, the Board considers that AE has complied with Direction 11.

14 DIRECTION 12 – CHANGES IN AFFILIATE CHARGES

The following direction was provided in Decision 2003-071:

> *The Board directs AE, in future GTAs, to provide a summary comparison of any affiliate transactions and the change, if any, in percentage terms, from the rate approved in the last GTA.*

14.1 Views of the Board - DIRECTION 12 – CHANGES IN AFFILIATE CHARGES

In the Refiling, AE indicated that it would comply with this Direction (See Summary of Outstanding Directions from Decision 2003-071).

15 DIRECTION 13 – CALCULATION OF CARRYING COSTS

The following direction was provided in Decision 2003-071:

> *The Board agrees with ATCO Electric that carrying costs for the changes arising from the revision from interim DT and TFO Tariffs should be calculated on the monthly outstanding balance (excluding carrying costs) and should continue until all balances have been either collected from or refunded to customers. Accordingly, the Board directs ATCO Electric, in its Refiling, to calculate and include interest at a rate in accordance with the Board's General Policy for Payment of Interest, Informational Letter IL 2000-1.*

Views of the Parties

AE

AE indicated that the Refiling calculations were in Schedule BD-13. These schedules show carrying costs of:

Table 16. AE Refiling – Carrying Costs to January 31, 2004

	<Recovery From> / Refund to Customers	
	2003 $000	2004
Transmission	<278>	<42>
Distribution	285	277

FIRM

FIRM noted that AE assumed that the final Transmission Tariffs and Distribution Tariffs would be in place February 1, 2004 and September 1, 2004, respectively. FIRM commented that in the event these tariffs are not in effect by the above-mentioned dates that AE should adjust the carrying costs accordingly.

15.1 Views of the Board - DIRECTION 13 – CARRYING COSTS

The Board considers that AE's approach is reasonable and that AE has complied with the Direction on a forecast basis. The Board expects that AE will update the calculations as required to reflect what actually transpires and ensure compliance is maintained on an actual basis.

16 DIRECTION 14 – PBR- NEXT GTA

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to provide as part of its next GTA filing:*
>
> - *The performance measures and statistics for both TFO and DFO functions that ATCO Electric considers important in the operation of the DFO and TFO functions,*
> - *The historical baselines for such measures, and*
> - *ATCO Electric's view of the appropriate criteria to adjust historical baseline data for events outside of the control of the wire service provider.*

16.1 Views of the Board - DIRECTION 14 – PBR - NEXT GTA

In the Refiling, AE indicated that it would comply with this Direction (See Summary of Outstanding Directions from Decision 2003-071)

17 DIRECTION 15 – UNIFORM SYSTEM OF ACCOUNTS (USA)

The following direction was provided in Decision 2003-071:

> *Therefore, the Board directs AE to collaborate with the other TFOs for the purposes of forming a working group consisting of TFO and stakeholder representatives to determine what would be required to develop and implement TFO USA that could be used for regulatory filings. This working group should be combined with the working group formed pursuant to the Board's direction in Decision 2003-061 respecting AltaLink. By December 31, 2003, AE and the other TFOs should file an initial report with the Board on the results of study group's efforts in this regard setting out how this matter can be progressed.*

Views of the Parties

AE

AE indicated that it had participated in preliminary discussions with the TFOs on this matter and would comply with this direction to file an initial report with the Board by December 31, 2003.

In response to Calgary's comments, AE indicated that there has been no intention for the TFOs, including AE, to adopt a unilateral approach to the Board Direction on a Uniform System of Accounts. In AltaLink's December 5, 2003 letter to stakeholders, AltaLink, on behalf of all TFOs, requested comments on the TFO's reports on the status of the implementation of a Uniform System of Accounts. Given that no comments were received from stakeholders by December 19, 2003, AltaLink sent the final report to the Board on December 22, 2003.

In that report, the next steps outlined that all stakeholders would be involved in approving any proposed Uniform System of Accounts.

As such, AE believes that the process currently being undertaken by the TFO's should be allowed to continue and that all stakeholders will have an opportunity to have input to any proposal that will be forwarded to the Board for approval of a Uniform System of Accounts.

FIRM

FIRM noted that this Direction did not require action for this proceeding.

Calgary

Calgary was of the opinion that this Direction was to the attention of all parties, not just the TFOs and recommended that a multi-party working group/ collaborative process should be convened to deal with a Uniform System of Accounts.

17.1 Views of the Board - DIRECTION 15 – UNIFORM SYSTEM OF ACCOUNTS

The Board considers that the report submitted on December 23, 2003 respecting the preliminary assessment of the establishment of a uniform system of accounts for regulatory filings confirms that AE is collaborating with the other TFOs[5] in the development of a USA. The Board expects AE to continue to be an active participant in this process. (See Summary of Outstanding Directions from Decision 2003-071).

The Board is satisfied that AE has complied with this direction.

18 DIRECTION 16 – PREFERRED SHARE COMPONENT OF CAPITAL STRUCTURE

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to use the preferred share component that it forecast in its Application. For 2004, the percentage of preferred shares in the capital structure is a placeholder amount, subject to change pending the Board's decision in the Generic Cost of Capital proceeding. ATCO Electric's Application indicated a preferred share ratio, for Transmission, of 7.10% for 2003 and 6.3% for 2004.*

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[5] TFOs represented were ATCO, AltaLink, the City of Lethbridge, the City of Red Deer, ENMAX, and EPCOR

Views of the Parties

AE

AE indicated that the mid-year balance for preferred shares for Transmission and Distribution had been updated from the original application to account for 2002 actuals as per Board Direction No. 22. This dollar change, along with the revised total capital resulted in the preferred share ratios that were used in the Revised Schedule 26-E-1.

In response to Calgary's comments, AE indicated that AE's approach was to only adjust the preferred share balance for the amount of any specific Board Directions. The only direction requiring a revision to preferred shares was Board Direction No. 22. This Direction required AE to update the preferred share component of capital structure to recognize updated 2002 series rates. The preferred ratio that resulted from using this approach did differ from the ratios quoted in the Board Direction. This difference was attributable to the changes in the equity ratio approved by the Board.

To maintain the preferred share ratios quoted in the Board Direction, AE would have had to adjust the mid-year balance for long term debt from that used in the refiling. AE is of the opinion that this was not the intent of the Board.

It is also noted that FIRM is in agreement with AE's approach. AE submitted that it was in compliance with this Board Direction.

FIRM

FIRM concurred with AE's approach and resulting calculations.

Calgary

Calgary noted that the re-filing showed preferred share ratios of 7.72% and 6.33%, not the 7.1% and 6.3% directed for AE TFO and thus, this did not demonstrate compliance with the Direction. Calgary also noted that ATCO did not replace the reduced common equity with debt.

With respect to the capital structure and return calculations provided, Calgary noted a number of problems due to the fact that the preferred equity percentage directed by the Board in this Directive was not what was found in the re-filing. Calgary further stated it was due to the following reasons:

1. The directed change in the equity ratios;
2. The change in the debt amount for AE;
3. The change in the allocation of debt between Transmission and Distribution; and
4. The change in the relationship between the rate base and capitalization.

Calgary also stated that the problem of tracking the above factors was heightened by the lack of pro-forma financial statements to reconcile the amounts resulting in what appear to be one-sided entries and that the proposed Debt for 2003 has not yet been issued. Calgary submitted the following table to summarize the inconsistencies based upon mid-year balances.

Table 17. Calgary Submission - Inconsistencies in Capital Structure

Mid-year balances – change from original	2003 $ Million	2004 $ Million
Transmission		
Rate Base	(15.0)	(17.4)
Contributions	(8.7)	(4.5)
Net rate base	**(6.3)**	**(12.9)**
Debt	(4.6)	44.7
Preferred	0.4	0.3
Common	(48.9)	(46.1)
Zero Cost	1.2	2.1
Change in Capital	**(51.9)**	**1.0**
Distribution		
Rate Base	(3.0)	(1.1)
Contributions	(3.5)	(3.5)
Net rate base	**0.5**	**2.4**
Debt	29.0	54.7
Preferred	0.3	0.3
Common	(58.5)	(55.6)
Zero Cost	1.0	(0.2)
Change in Capital	**(28.2)**	**0.8**

As can be seen from the above table, although the mid-year transmission amount to be financed (net rate base) decreased by $6.3 million in 2003 and $12.9 million in 2004, the 2003 mid-year capitalization decreased by $51.9 million in 2003. While the amount of common equity could be expected to be reduced because of the lower equity approved by the Board, Calgary stated it would have been expected that the capital would have been replaced with debt. The decrease was further intensified by the increase in the debt allocated to Distribution in 2003 when the debt allocated to Transmission decreased in 2003.

Calgary submitted that the Board should clarify how it expected AE to deal with the reduction in common equity. Calgary stated that it would have expected that AE would have increased the amount of debt to replace the reduced common equity, while the approach taken by AE resulted in an overstatement of the revenue requirement as compared to a revenue requirement determined by using the approach of replacing the equity with debt.

In Calgary's view, the adjustments to the debt between transmission and distribution should be consistent with the change in the rate base net of contributions. The allocation used by AE resulted in an overstatement of the common return and tax expense of AE. It also resulted in the preferred share equity component exceeding the percentage approved by the Board in Direction 16.

Calgary also stated that AE's common equity ratio was not based upon a mid-year convention while debt, preferred equity, zero cost capital, rate base and contributions were based on the mid-year convention.

18.1 Views of the Board - DIRECTION 16 – PREFERRED SHARE COMPONENT

The Board directed AE "in its Refiling, to use the preferred share component that it forecast in its Application." In this direction, the Board intended that AE use the dollar amount of preferred shares that it had forecast (as revised per Direction 22) as opposed to the percentage component. The Board is satisfied that AE has complied with the direction.

The Board notes Calgary's indication that AE should have added debt to its capital structure to offset the reduced common equity. Calgary indicated that this alternative method of dealing with the equity reduction would result in a lower revenue requirement, net of income tax impacts. However, Calgary did not provide the magnitude of the impact.

Based on the information provided by Calgary, the Board is not convinced that the impact is material. In any event, the Board considers that AE's method is in compliance with the Board's intentions and is consistent with past practice.

Therefore, the Board considers that AE has complied with Direction 16.

19 DIRECTION 17 – COMMON EQUITY COMPONENT OF CAPITAL STRUCTURE – TRANSMISSION

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling for Transmission, to use a common equity ratio of 32% for 2003 and to use 32% as a placeholder for 2004.*

Views of the Parties

AE

AE illustrated that, in Revised Schedule 26-E-1, it had used a common equity ratio of 32.0%, as directed.

In response to Calgary's comments, AE indicated that as outlined on page 20 of 73 of AE's Refiling, AE is in complete compliance with the Board Direction and has used a deemed 32% mid-year common equity ratio for both 2003 and 2004. This 32% ratio gives rise to a 31.61% capitalization ratio once no-cost capital is factored in. The City of Calgary mistakenly used the ratio inclusive of no-cost capital when asserting that AE was only substantially in compliance with the Direction.

FIRM

FIRM did not object to AE's calculations.

Calgary

Calgary agreed that there was substantial compliance with this Direction.

With respect to capital structure and return calculations, Calgary reiterated its comments in its response to Board Direction No. 16.

19.1 Views of the Board - DIRECTION 17 – COMMON EQUITY – TRANSCO

The Board considers that AE has complied with Direction 17.

20 DIRECTION 18 – COMMON EQUITY COMPONENT – DISTRIBUTION

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling for Distribution, to use a common equity ratio of 35% for 2003 and to use 35% as a placeholder for 2004.*

Views of the Parties

AE

AE illustrated that, in Revised Schedule 26-E-1, it had used a common equity ratio of 35.0%, as directed.

In response to Calgary's comments, AE indicated that as outlined on page 21 of 73 of AE's Refiling, AE is in complete compliance with the Board Direction and has used a deemed 35% mid-year common equity ratio for both 2003 and 2004. This 35% ratio gives rise to a 33.93% capitalization ratio once no-cost capital is factored in. The City of Calgary mistakenly used the ratio inclusive of no-cost capital when asserting that AE was only substantially in compliance with the Direction.

FIRM

FIRM did not oppose AE's calculations.

Calgary

Calgary agreed that there was substantial compliance with this Direction with respect to common equity.

With respect to capital structure and return calculations, Calgary reiterated its comments in its response to Board Direction No. 16.

20.1 Views of the Board - DIRECTION 18 – COMMON EQUITY – DISTRIBUTION

The Board considers that AE has complied with Direction 18.

21 DIRECTION 19 – FLOTATION ALLOWANCE

The following direction was provided in Decision 2003-071:

> *The Board considers that this issue (of a flotation allowance) should be addressed further in the Generic Cost of Capital Proceeding. If this matter is not addressed in the Generic Cost of Capital proceeding, the Board directs ATCO Electric to address this matter in the next GTA.*

21.1 Views of the Board - DIRECTION 19 – FLOTATION ALLOWANCE

This direction required compliance by AE subsequent to the Refiling. In the Refiling AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

22 DIRECTION 20 – RETURN ON COMMON EQUITY

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to use a return on common equity of 9.4% for both Transmission and Distribution for purposes of calculating the revenue requirement.*

Views of the Parties

AE

AE indicated that in revised Schedule 26-E-1, it had complied with this direction.

FIRM

FIRM did not oppose AE's calculations.

Calgary

Calgary noted that AE had complied with this Direction with respect to common equity.

With respect to capital structure and return calculations, Calgary reiterated its comments in its response to Board Direction No. 16.

22.1 Views of the Board - DIRECTION 20 – RETURN ON COMMON EQUITY

The Board considers that AE has complied with Direction 20.

23 DIRECTION 21 – COST OF DEBT

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to use 6.145% as the forecast cost for the remaining forecast debt amounts in 2003 and 2004 and to reflect a reasonable pro-rationing of the 6.145% and the 4.801% debt issues in late 2002. For its next GTA, the Board directs ATCO Electric to address in more detail the appropriate term for forecast debt issues.*

Views of the Parties

AE

AE indicated that, in its Revised Schedule 26-E-2, it had revised the debt costs as directed. In 2002, the coupon rate used in Revised Schedule 26-E-2 of 5.809% was arrived at as follows:

CU Inc. Debt Issue:

Table 18. AE Refiling – CU Inc. Debt Issue

$ Million	%	Debt Rate	Weighted Rate <% x rate>
150	75	6.145	4.609
50	25	4.801	1.20
200			5.809

In response to Calgary's comments, AE indicated that AE agrees with FIRM, that it is in complete compliance with this Direction. The forecast debt issue costs for 2003 and 2004 that are shown on Schedule 26-E-2 (page 3 of 4 and 4 of 4) of the refiling clearly indicate that the coupon rate for these issues is 6.145%, as was directed by the Board. The coupon rate used was not 6.45%, which is the figure used by the City of Calgary on page 3 (Direction No. 21) of its comments. In its Refiling comments, AE responded in a substantial way to Calgary's comments.

Therefore, AE states that the capitalization ratios included in its refiling are correct and this issue raised by the City of Calgary has no merit in determining compliance with these Directions.

FIRM

FIRM did not oppose AE's calculations.

Calgary

Calgary noted that AE had substantially complied with this Direction with respect to AE's blended rate (25/75) and the amount of debt for 2003 and 2004.

With respect to capital structure and return calculations, Calgary reiterated its comments in its response to Board Direction No. 16.

23.1 Views of the Board - DIRECTION 21 – COST OF DEBT

In Direction 16 above, the Board dealt with Calgary's comments with respect to capital structure and return calculations.

The Board considers that AE has complied with Direction 21.

24 DIRECTION 22 – FORECAST PREFERRED SHARE COST

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to use its forecast preferred share cost for 2003 and 2004, as revised in CCA-ATCOGTA-133.*

Views of the Parties

AE

AE indicated that, in its revised Schedules 26-E-3 and 26-E-4, it had complied with this direction.

In response to Calgary's comments, AE indicated that AE has complied with the intent of Board Direction No. 22. The Board Direction required AE to update its preferred share costs for the actual 2002 preferred share issue. In response to CAL-ATCOGTA-133, AE had included estimated issue costs in the calculation of the net proceeds outstanding. These issue costs were not, in fact, incurred. This fact was incorporated into the refiling and resulted in reducing the embedded cost rate for preferred shares to 5.50% from the 5.53% and 5.54% included in CAL-ATCOGTA-133.

FIRM

FIRM did not object to AE's calculations.

Calgary

Calgary stated that while there was no compliance with this Direction, it was due to the data reference in the Direction being in error.

24.1 Views of the Board - DIRECTION 22 – FORECAST PREFERRED SHARES

In its Views on Direction 16, the Board directed AE "in its Refiling, to use the preferred share component that it forecast in its Application." In this direction, the Board intended that AE use the dollar amount of preferred shares that it had forecast (as revised per Direction 22) as opposed to the percentage component.

The Board has addressed Calgary's concern regarding this Direction under its views on Directions 4 and 16 above.

The Board considers that AE has complied with Direction 22.

25 DIRECTIONS 23 & 24 –"RAINBOW-TYPE" EXPENDITURES

The following direction 23 was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling for Transmission, to expense for forecast income tax purposes all Rainbow-type expenditures, including maintenance capital expenditures of $3.6 million in 2003 and $4.0 million in 2004, subject to deferral account treatment as outlined above.*

The following direction 24 was provided in Decision 2003-071:

> *The Board expects that at least a similar percentage of its Distribution expenditures would be eligible as Rainbow-type expenditures for deductions as that of its Transmission expenditures. The Board directs ATCO Electric, in its Refiling, to reflect the full advantage of expensing for income tax purposes all Rainbow-type expenditures for Distribution in forecasting its 2003 and 2004 Distribution related taxes. The Board directs ATCO Electric to explain the items that were expenses and to explain any difference between Distribution and Transmission with respect to the percentage of eligible amounts.*

Views of the Parties

AE

AE indicated that the Refiling calculations were in Revised Schedule 7-B-3 which discloses the deductions for Rainbow-type Transmission expenditures of $3.6 million in 2003 and $4.0 million in 2004.

In response to FIRM's comments, AE indicated that in the refiling that ATCO Electric believes, as does the City of Calgary, that the Board Direction was followed in ATCO Electric's forecast of $3.6 million in 2003 and $4.0 million in 2004 for Rainbow-type expenditures for Transmission.

The Board, in determining the Refiling amount for Transmission Rainbow-type expenditures, used the following forecast from the 2003-2004 GTA filing:

Table 19. AE Refiling – Transmission Rainbow-type Expenditures

	2003 $ Millions	2004 $ Millions
System Performance	1.8	2.1
Life Extension	1.8	1.9
	3.6	4.0

The similar projects for Distribution were outlined in Schedule 20-B-4, page 3 of 4 and Schedule 20-B-7, page 8 of 54 of the application and were:

Table 20. AE Refiling – Distribution Rainbow-type Expenditures

	2003 $ Millions	2004 $ Millions
System Performance	0.9	1.0
Life Extension	1.3	1.1
Reliability Improvement Projects	1.1	1.1
Special Reliability	0.6	0.5
	3.9	3.7

These are the amounts AE has used as a placeholder in this Refiling and is disclosed on Revised Schedule 17-B-3.

AE noted that the placeholders are similar for both Transmission and Distribution, but submitted that there was no rationale to support these large placeholder amounts.

The reason for this was explained at length during the 2003/2004 GTA proceedings. Basically the definition of what constitutes a capital cost for tax purposes compared to what constitutes an expense item is very close to the definition AE uses for accounting purposes.

AE indicated that it would, however, include the significant placeholder amounts in accordance with the Board Direction and continue to diligently pursue the maximum possible deduction with CCRA. AE indicated that it would provide a status of its pursuit of this deduction at the time of AE's 2003 Deferral Application. However, in AE's opinion, the actual deduction will be in the range originally included in its application and not close to the placeholder amounts.

In response to FIRM's comments, AE indicated that to clear up this issue, AE would as stated in its response to comments from Board Direction No. 23 provide a detailed assessment of the Rainbow-type expenditures as suggested by FIRM. This information will be provided at the time of filing AE's 2003 Deferral Application.

AE stated that this detailed assessment would outline, on a project-by-project basis, why certain capital expenditures are treated as repair costs for tax purposes while other capital expenditures cannot be so treated and are capitalized for tax purposes.

To be clear, AE stated that all capital expenditures that are considered repair costs for tax purposes would meet the criteria for a current tax deduction. FIRM appears to suggest that there could be capital costs that are considered repair costs that would not meet the criteria of a current tax deduction. This is simply not the case.

AE stated that in response to FIRM's specific comments:

- AE followed the Board Direction in arriving at the placeholder amount for Distribution Rainbow-type expenditures. That is, AE reflected the full advantage of expensing for income tax purposes all Rainbow-type expenditures for Distribution in forecasting 2003 and 2004 related taxes. To do this, AE assumed the projects to be in the Distribution placeholder would be the same type of projects that the Board assessed as Rainbow-type expenditures for Transmission.

In AE's opinion, it is not possible to provide a detailed assessment of the individual items making up this placeholder. As was stated in the refiling and throughout the 2003/2004 GTA proceeding, AE has no rationale to support these large placeholder amounts. However, as they are placeholder amounts, AE does not object to their inclusion in the calculation of the related taxes. AE does see the need for and will provide the detailed assessment being requested at the time of filing the 2003 deferral application.

In AE's view, the difference of 1% in the percentage of capital expenditures classified as Rainbow-type expenditures is not significant in terms of determining a placeholder amount. The percentage of Rainbow-type expenditures to total capital expenditures will be dependent on the type of work that is being carried out. A fuller explanation of variances, if any is required, will be provided at the time AE completes its detailed assessment of the Rainbow-type expenditures.

FIRM

FIRM recognized that AE had reflected a deduction, in the Transmission function, of $3.6 million in 2003 and $4.0 million in 2004 with respect to Rainbow-type expenses in its Compliance Filing at Schedule 7-B-3 (p. 2 of 2).

FIRM submitted AE appeared to have misunderstood the focus of the Board Direction. In FIRM's view, the Board's direction was quite clear: AE should include all Rainbow-type expenses, including maintenance capital expenditures of $3.6 million in 2003 and $4.0 million in 2004. FIRM stated that AE included only these amounts, as opposed to undertaking an assessment of all Rainbow-type capital expenditures. It was also the opinion of FIRM that the Refiling had done little to shed additional light on this issue.

FIRM further noted that the Board also was clear that AE's "role should be to minimize the revenue requirement for income tax and thereby reduce current customer rates while minimizing AE's risk." FIRM submitted it appeared AE's risk had been minimized by its direction to set up a deferral account and a reconciliation mechanism, however AE had not done much to assist the Board and Interveners to assess whether the tax component of the revenue requirement had been minimized. .

FIRM submitted that AE had not fully nor adequately complied with this Direction. In more detail, AE submitted that an amount of $3.9 million in 2003 and $3.7 million for 2004 Distribution was eligible as current expenses for income tax purposes.

However, FIRM was of the belief this was based on a broad-brush approach and AE appeared to have mechanistically taken projects in Distribution that were similar to those eligible for Rainbow-type treatment in the Transmission Function without undertaking a detailed review of all Distribution projects. In addition, contrary to the explicit Board direction to expense "all Rainbow-type expenditures" for each test year, AE did not provide any assessment of projects in each of the 4 categories listed. [System Performance, Life Extension, Reliability Improvement and Special Reliability, which total $3.9 million in 2003 and $3.7 million in 2004 (Response to Board Direction #24, p. 27 of 73)]. Also, AE did not provide an assessment of whether the percentage of Rainbow-type expenditures for Distribution is similar to that for Transmission, as specifically directed by the Board nor had it explained the reasons for variances in these percentages.

FIRM noted for the Transmission and Distribution functions, the percent of total capital expenditure that, according to AE qualify for Rainbow-type tax treatment, are shown on the table below:

Table 21. FIRM – Rainbow-type Treatment – Transco and Disco

		2003 $ Millions	2004 $ Millions
Transmission			
Rainbow-type Expenses		3.6	4
Total Cap Exps	Sc 10-B-4	150.5	64.4
		2.39%	6.21%
Distribution			
Rainbow-type Expenses		3.9	3.7
Total Cap Exps	Sc 20-B-4	70.3	72.6
		5.55%	5.10%

FIRM submitted the foregoing did not provide any test of reasonableness. In 2004, for Transmission, about 6% of the total capital expenditures are considered eligible for the Rainbow-type tax treatment. For the Distribution function, in contrast, it was closer to 5%.

In FIRM's view, AE expressed the pessimistic view that the expectations of the Board and Interveners that there should be more Rainbow-type eligible capital expenditures may not be realistic. In AE's "opinion, the actual deduction will be in the range originally included in its application and not close to the placeholder amounts." [Compliance Filing, p. 28 of 73].

FIRM submitted that the only way to truly test if AE's pessimism was justified was for it to provide, on a project-by-project basis, a detailed assessment of why those Distribution capital expenditures that were considered "repair" (as opposed to "replacement" capital expenditures) projects, did not meet the criteria of immediate or current tax deduction. AE should be directed to do so when it files the proposed Distribution tax deferral account reconciliation.

Calgary

Calgary stated that there was compliance with the Transmission Direction.

25.1 Views of the Board - DIRECTION 23 & 24 – "RAINBOW – TYPE"

For both Transmission and Distribution situations, the Board finds that AE has not fully complied with the Board's direction on this matter because AE has not undertaken an assessment of all Rainbow-type capital expenditures to prove that AE's placeholders are at appropriate levels. The Board considers that further process is required to deal with this issue.

Accordingly, the Board directs AE, for both Transmission and Distribution, to file a project-by-project submission of why certain transmission capital expenditures are treated as repair costs for tax purposes while other capital expenditures could not be so treated and are capitalized for tax purposes. This submission is to be made when AE files the Transmission and Distribution tax deferral account reconciliations for 2003 and for 2004, the timing of which should be when AE files its annual filing for adjustments as directed in this Decision.

26 DIRECTION 25 – TAX DEFERRAL ACCOUNT TREATMENT AND RECONCILIATION PROCESS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to propose the form of Transmission and Distribution tax deferral accounts and reconciliation process that would appropriately account for any differences in the deductions claimed in 2003 and 2004 as a result of claiming the eligible Rainbow-type expenditures vs. the deductions ultimately allowed.*

Views of the Parties

AE

AE proposed a deferral account mechanism for the Rainbow-type expenditures consistent with the mechanism AltaLink included in its September 17, 2003 Refiling of its 2002/2003 and 2003/2004 GTA.

This mechanism sets up a deferral account for the income tax component of the deduction of the Rainbow-type expense and creates a reserve account to capture the uncertain nature of the Rainbow-type expenses pertaining to the Provincial income taxes.

In its 2003 Deferral Application, AE indicated that it would include the impact of the Rainbow-type expenditures claimed as a tax deduction being different than the deduction claimed as a placeholder in this filing.

This impact is not final until CCRA has completed its audit of the years in question. As this audit may not occur in the foreseeable future, there is the potential that the impact included in the 2003 and the 2004 deferral applications could be revised several years later at the conclusion of the CCRA audit. This revision would be necessary should CCRA disallow any of the deductions claimed.

In response to FIRM's comments, AE indicated that AE would not recommend including Federal taxes in the deferral calculations.

AE stated that as FIRM points out, the impact of including Federal taxes in the deferral calculation is restricted to the impact on no-cost capital, which AE would define as a second order effect. The impact of these second order effects is not significant. For instance, a variance in the placeholder of $3.6 million for the Rainbow-type expenditures would give rise to an impact on revenue requirement of approximately $70,000 ($3.6 million x Federal tax rate [21%] x before tax WACC [9.51%]).

Given this significance, and the fact that the actuals could be higher or lower than the placeholder amount, AE does not believe the additional effort required by the Board, Interveners and AE warrants a deferral account. The additional effort can relate to the monitoring, and approving of the amounts accumulated into the deferral accounts.

In conclusion, AE has no serious issue with incorporating a deferral account for the Federal taxes but would not recommend it for the reasons stated.

FIRM

Subject to the comments made by FIRM in response to AE's compliance with Board Direction No. 23, FIRM submitted that AE's proposal was reasonable. However, FIRM questioned why AE proposed not to apply the reserve account to Federal tax computation. In FIRM's view, the deferral account treatment should also apply to the Federal income taxes. FIRM further made note of the comment made by Calgary in which it explained the implications of Federal tax on Rainbow-type expenses, and the Board at p. 60 of Decision 2003-071:

> Calgary indicated that for Federal taxes, while the potential larger deduction would not lower the tax paid by customers (due to the use of the liability method), customers would benefit from the larger deductions through increased deferred income taxes, which is no-cost capital. Calgary also indicated that a larger income tax deduction directly reduces the revenue requirement for Provincial taxes. This will eventually reverse, but customers still benefit because of the time-value of money.

Accordingly, FIRM submitted that the deferral account should be applied to the computation of both the Provincial as well as Federal income taxes.

Calgary

In Calgary's view the AE submission in respect of this Direction lacked sufficient detail and did not properly reflect adjustments directed by the Board for the Rainbow-type expenditure. In particular:

1. For Provincial tax AE booked the equivalent future income tax liability for the amount in question – that is, the $3.6 million times the Provincial tax rate. This approach increased the income tax expense by approximately $700,000 over what it would be if the full amount of approved "Rainbow" expenditures were deducted for income tax expense. The explanation provided by AE did not discuss what the adjustments would be if the amount approved exceeded the amount originally forecast but was less than the Board estimate.
2. For Federal tax the "impact" was simply identified as the difference between the amounts collected as future income taxes and the current income tax. There is no precise method of quantification laid out, although doing so should be straightforward (i.e. two identifiable amounts and the tax rates).

Calgary submitted that adequate protection for AE would be provided by a deferral account that would record any increase in Provincial income tax if the Rainbow deduction were ultimately not approved. The "reserve account" AE proposed has the effect of negating the benefit of the higher deduction approved by the Board. Calgary suggested establishing a deferral account with no allowance at this time for Provincial tax. For the Federal portion, the amount was properly recorded in the future income tax liability account. However, there should be an explanation of how the disallowance, if any, would be reflected in the future income tax liability account. This would provide AE with an incentive to aggressively pursue the deduction.

26.1 Views of the Board - DIRECTION 25 – TAX DEFERRAL ACCOUNT

The Board considers that AE's proposal is not fully explained in the Refiling.

Firstly, the Board is not satisfied that the impact on no-cost capital of the forecast deduction of eligible Rainbow-type expenditures for Federal taxes has been accounted for. The Board notes that second order effects are normally accounted for in AE's models and does not consider that an exception should be made in this case. Therefore, the Board directs AE to take into account the increase on no-cost capital, when calculating its tax deferral account adjustment.

Secondly, the Board notes Calgary's view that AE's proposed reserve account treatment is inappropriate since a reserve account would negate the benefit on revenue requirement of the higher tax deductions. AE indicated that:

> This mechanism sets up a deferral account for the income tax component of the deduction of the Rainbow-type expense and creates a reserve account to capture the uncertain nature of the Rainbow-type expenses pertaining to the Provincial income taxes.
>
> In its 2003 Deferral Application, ATCO Electric will include the impact of the Rainbow-type expenditures claimed as a tax deduction being different than the deduction claimed as a placeholder in this filing.[6]

While the Board agrees with Calgary that the reserve account negates the benefits to revenue requirement, the Board considers that this impact is small relative to the size of AE's revenue requirement, which it has approved in this Decision. Further, the Board considers that the deferral account treatment has already lessened AE's incentive to aggressively pursue tax deductions related to Rainbow-type expenditures, and the reserve account would not significantly further lessen AE's incentive. The Board considers that the appropriate form and calculation of AE's deferral account and reserve account treatment relating to tax deductions related to Rainbow-type expenditures can best be examined when AE files the Transmission and Distribution tax deferral account reconciliations for 2003 and for 2004.

Accordingly, the Board directs AE to fully explain the form and calculation of AE's deferral account and reserve account treatment for both Transmission and Distribution when AE files the Transmission and Distribution tax deferral account reconciliations for 2003, the timing of which should be when AE files its annual filing for adjustments as directed in this Decision.

This approach will also allow for a Phase II filing and more representative interim rates on a timely basis without further process at this time.

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[6] AE Refiling, page 29

27 DIRECTION 26 – BOOK DEFERRED INCOME TAX (BDIT) CALCULATION OF REFUND

The following direction was provided in Decision 2003-071:

> *The Board approves ATCO Electric's calculation method regarding the net present value of the loss of benefit arising from the $19.4 million reduction in BDIT. The Board directs ATCO Electric, in its Refiling, to recalculate this amount based on the cost of capital approved in this decision and to include the revised amount.*

Views of the Parties

AE

AE stated that the recalculated amounts using the cost of capital approved in this decision are outlined in the Schedule 4, Schedule 5 and Schedule 6 and result in the following one-time refunds:

Table 22. AE Refiling – Booked Deferred Income Tax - Refunds

Transmission	$0.1 million
Distribution	$1.9 million

AE stated that the Schedule 4, Schedule 5 and Schedule 6 from the application have been updated to reflect the capital structure, rate of return and income tax rates approved in Decision 2003-071. The reason for the lower one time refunds from the amounts of $0.2 million for Transmission and $2.1 million for Distribution included in the application is a result of the lower annual revenue requirement impacts resulting from the lower approved rates.

In response to Calgary's comments, AE indicated that AE would like to state that it is in complete compliance with this Direction. The debt, preferred and common equity figures used on Revised Schedule 6 of Board Direction 26 for the years 2003 and 2004-2017 are the same as those used on Revised Schedule 26-E-5 of the refiling.

The income tax rates for 2003 and 2004-2017 are the same as those used in the refiling. Revised Schedules 7-B-2 and 17-B-2 of the refiling contain the following income tax rates:

Table 23. AE Refiling – Income Tax Rates

	2003 %	2004 %
Federal	23.0	21.0
Provincial	12.625	11.75
	35.625	32.75

These rates were used on Revised Schedule 6 in the Refiling section dealing with Board Direction No. 26.

As a result, AE is of the view that it is in complete compliance with this Board Direction.

FIRM

FIRM did not object to AE's calculation of the net present value of the loss of benefit arising from the $19.4 million reduction in BDIT.

Calgary

Calgary did not believe that the calculation provided by AE was fully in compliance but believed that the amounts involved were not sufficient to recommend pursuing the issue.

27.1 Views of the Board – DIRECTION 26 – BDIT REFUND CALCULATION

The Board has reviewed AE's calculations and tax rates and finds them appropriate. Accordingly, the Board approves the $1.9 million Distribution refund and $0.1 million Transmission in regard to the net present value of the loss of benefit arising from the $19.4 million reduction in BDIT.

Therefore, the Board considers that AE has complied with Direction 26.

28 DIRECTION 27 –BOOK DEFERRED INCOME TAX (BDIT) REFUND APPROACH

The following direction was provided in Decision 2003-071:

> *The Board considers that the (BDIT) amounts should be refunded through riders arising from this or other Decisions. The Board directs ATCO Electric, in its Refiling, to include its recommended approach to settling this BDIT refund, giving regard to the Board's direction contained in the Refiling section.*

Views of the Parties

AE

AE's approach for this refund would follow the approach outlined in its October 31, 2003 Interim Tariff Application for Distribution and the November 12, 2003 Interim Tariff Application for Transmission.

In this approach, AE stated that the Distribution portion of this refund would be included with AE's application to dispose of its deferral accounts (likely in early February 2004) after the final Board Decision on this Refiling.

AE stated that the Transmission portion of the refund would be included as a one lump-sum adjustment on the invoice to the TA following the final Board Decision on this Refiling.

FIRM

FIRM did not object to AE's proposal for a one-time refund of the transmission portion of this refund.

Calgary

Calgary stated that AE's proposed treatment of this Direction was acceptable.

28.1 Views of the Board - DIRECTION 27 – BDIT REFUND APPROACH

As indicated earlier in this Decision, the Board considers that AE's approach is appropriate.

Therefore, the Board considers that AE has complied with Direction 28.

29 DIRECTION 28 – FUTURE INCOME RATES

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, as a placeholder, to use the future tax rates that have been announced by the Federal and Provincial governments notwithstanding that the announced rates have not yet been enacted.*

Views of the Parties

AE

AE indicated that the Refiling calculations were in Revised Schedules 7-B-2 and 7-B-5 for the updated Transmission future income tax rates and Revised Schedules 17-B-2 and 17-B-5 for the updated Distribution future tax rates that have been used in this Refiling.

The calculation for the Provincial income tax rates is as follows:

Table 24. AE Refiling – Future Provincial Income Tax Rates

	2003 %	Weighted %	2004 %	Weighted %
January to March	13.0	3.25	12.5	3.125
April to December	12.5	9.375	11.5	8.625
Annual Rate		12.625		11.75

In response to Calgary's comments, AE indicated that while AE does not dispute the fact that a proration based on the number of days is in accordance with the Income Tax Act, it submits that the resulting change would be insignificant.

The new rates based on the number of days are as follows:

Table 25. AE Refiling – Future Provincial IT Rates – Weighted by Days

	2003	%	2004	%
January 1 to March 31	90	24.66	91	24.86
April 1 to December 31	275	75.34	275	75.14
Total Days	365		366	

			Weighted %
2003 Rates:	January to March	13.0% x 24.66% =	3.205
	April to December	12.5% x 75.34% =	9.418
			12.623
2004 Rates:	January to March	12.5% x 24.86% =	3.108
	April to December	11.5% x 75.14% =	8.641
			11.749

The rates used in the refiling were 12.625% in 2003 and 11.75% in 2004. The difference in these rates is 0.002% in 2003 and 0.001% in 2004: The impact of this difference is:

Table 26. AE Refiling – Future IT Rates – Impact of Alternate Calculations

	2003 $ Millions	2004 $ Millions
Transmission Provincial Taxable Income (per Schedule 7-B-2 of the refiling)	$31.0	$36.3
Change in Rates	0.002%	0.001%
Impact on Taxes	$0.00062	$0.000363

As demonstrated in the above table, the change in the income taxes as a result of following the City of Calgary's recommendation is totally insignificant and is approximately $620 in 2003 and $363 in 2004. AE submits that the Board should therefore approve AE's rates as filed.

FIRM

FIRM concurred with AE's use of a tax rate of 11.50% effective April 1, 2004 and resultant annualized 2004 Alberta income tax rate of 11.75% rate, as shown on Schedules 7-B-2 and 7-B-5. FIRM also stated that it did not object to AE's calculations using the revised placeholder rate in 2004.

Calgary

Calgary noted that AE used a 25/75 percent apportionment as opposed to using the actual number of days to which the tax rates were applicable.

29.1 Views of the Board - DIRECTION 28 – FUTURE INCOME RATES

The Board considers AE's approach to be appropriate and reasonable.

Therefore, the Board considers that AE has complied with Direction 28.

30 DIRECTION 29 – LCT DEFERRAL ACCOUNT

The following direction was provided in Decision 2003-071:

> *In addition to using the announced rates, the Board considers that an appropriately constructed deferral account would be fair for both customers and ATCO Electric to capture any changes from those intentions over the test period. Accordingly, the Board directs ATCO Electric, in its Refiling, to propose a deferral account and related procedures that would account for any change in Alberta tax rates and Federal LCT.*

Views of the Parties

AE

To comply with this direction, AE proposes the following deferral account:

For the 2003/2004 periods, AE stated that there would be a deferral account set up to capture:

- Enacted Provincial income tax rates being different from the Provincial income tax rates used in this filing.
- Enacted LCT rate being different from the rate used in this filing.

AE stated that the impact to be set up in the deferral account will be based on:

For Income Tax

- For current tax, the impact will be based on the rate differences multiplied by the forecast for taxable income in this filing.
- For future tax, the impact will be based on the rate differences multiplied by the Federal temporary differences in this filing.

For Large Corporation Tax

- The impact will be based on the rate differences multiplied by the tax base in this filing.
- The balance in the 2003 tax deferral account will be included in AE's 2003 deferral application, which will be filed with the Board by June 30, 2004. The 2004 deferral application will be filed by June 30, 2005.

In response to Calgary's comments, AE indicated that AE did not talk about the impact of future taxes on no-cost capital, as AE does not feel that this impact warrants deferral account treatment. The reason is quite simple. This impact, being a second order impact, is insignificant and does not warrant the increased regulatory process required to monitor and approve the amounts accumulated.

AE stated that an estimate of the potential impact can be calculated as follows:

Table 27. AE Refiling – Potential Impact of Future Taxes on No-cost Capital

	$ Millions
Federal Temporary Differences (per Schedule 7-B-2 of refiling)	$2.3
Assume Actual Federal Tax Rate is 5% different than rate in refiling (2.3 x5%)	$0.115
Before Tax WACC (per Schedule 26-E-5)	9.51%
Impact on Revenue Requirement ($0.115 x 9.51%)	$0.01

Therefore, AE stated that a 5% change to the rates in the refiling causes a $10,000 change in revenue requirement. Given that a change in the tax rate of such magnitude is unlikely, the impact is likely to be less than the $10,000 estimated above. It is clear impacts of this magnitude do not warrant deferral account treatment.

In response to FIRM and the City of Calgary's comments on a deferral account for 2003, AE does not believe the refiling intended to imply that there would be a balance in this account for 2003. The proposal in the refiling merely intended to include 2003 in the deferral account process so that in the event, however unlikely, that if enacted 2003 rates differed from what was in the refiling, that difference would be captured in the deferral account.

As such, AE believes it has fully complied with this Board Direction and that no further detail is required.

FIRM

FIRM disagreed with AE that the deferral account noted in this Direction applied to 2003.

FIRM also stated the Board Direction No. 28 relates only to "announced rates that have not been enacted" and that would apply only to 2004.

FIRM further submitted the proposed deferral account and related procedures for any changes in Alberta income tax rates and the Federal LCT for 2004 appeared to be adequate and appropriate, subject to the additional submission that the deferral account should be grossed-up to reflect the pre-tax amount of reduction in the revenue requirement.

Calgary

As Calgary commented with respect to the tax rate deferral account proposal, the details of this proposal were not complete. In particular:

- The explanation talks of the impact on future tax but not on the amount of zero cost capital.
- There should be known balances in this account until after the legislation is passed or not passed.
- The implication on page 33 is that there will be a balance in the 2003 deferral account yet if the changes are approved there should be no balance. There should only be a balance if the rate change is not approved.

Consequently, Calgary believed that further detail was required from AE before there was compliance with this Direction.

30.1 Views of the Board - DIRECTION 29 – LCT DEFERRAL ACCOUNT

The Board considers that AE has provided sufficient detail and explanation of its approach to the tax rate deferral accounts. The Board also notes that any 2003 deferral balance would be zero since the 2003 rates have already been enacted.

Therefore, the Board considers that AE has complied with Direction 29.

31 DIRECTION 30 – SHARING OF LCT CREDIT BENEFITS

The following direction was provided in Decision 2003-071:

> *The Board agrees with ATCO Electric that these LCT scenarios are not significant since the maximum difference arising from a change would only be about $100,000 in LCT in revenue requirement. Further, the Board also recognizes that customers benefit from the benefits ATCO Electric realizes from the synergies of corporate costs as an affiliate of CU and does not forecast "stand-alone" corporate costs. Accordingly, the Board will not require ATCO Electric to file for the LCT deduction on a stand-alone basis. However, the Board directs ATCO Electric, in its Refiling, to ensure that the LCT credit benefits are shared amongst all affiliates in the same manner that corporate costs are allocated.*

Views of the Parties

AE

AE stated that the AE impact of receiving the LCT credit in the same manner that corporate costs are allocated results in a credit of:

Table 28. AE Refiling – Impact of LCT credits per Corporate Cost Allocation

	2003	2004
Transmission	$2,700	$11,300
Distribution	$1,940	$8,400

AE stated that these credits are reflected in Revised Schedule 7-B-5 for Transmission and Revised Schedule 17-B-5 for Distribution and round to $0.0 as these schedules are in millions.

In response to Calgary's comments, AE indicated that AE considers that it is possible to verify compliance from the information provided as part of the refiling. The electronic copy of Revised Schedules 7-B-5 and 17-B-5 include the details on the capital reduction amounts. These amounts are as follows:

	2003 $ Millions	2004 $ Millions
Transmission (Schedule 7-B-5)	1.165595	5.92081
Distribution (Schedule 17-B-5)		
AE's Share of Reduction	0.897405	4.39419
	2.063000	10.31500
Total Capital Deduction	10.000	50.000
AE % Share	20.63%	20.63%

AE stated that these allocation percentages are the same as the updated corporate costs allocation included in Schedule A, page 1 of 11 of the response to Board Direction No. 50. This schedule contains the following:

	2003 $ Millions	2004
Total Costs	16.812	17,494
AE Share	3.468	3,609
AE %	20.63%	20.63%

This demonstrates that the total LCT capital reductions used by AE in 2003 and 2004 do correspond to the corporate cost allocations.

AE therefore submits that compliance with the Board Direction has been verified.

FIRM

FIRM submitted that AE had adequately responded to this Direction.

Calgary

Calgary stated that it was not possible to verify compliance as no work papers were provided to support that the Large Corporation Tax allocation was the same as corporate allocations.

31.1 Views of the Board - DIRECTION 30 – SHARING LCT CREDIT BENEFITS

After reviewing the additional material provided by AE in its January 26, 2004 filing, the Board is satisfied that the Large Corporation Tax allocation will be carried out in the same manner as corporate costs are allocated.

Therefore, the Board considers that AE has complied with Direction 30.

32 DIRECTION 31 – ACTUAL 2002 CLOSING BALANCES

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to update its forecast 2003 rate base opening balances to reflect its actual 2002 closing balances for each account.*

Views of the Parties

AE

In response to intervener's comments, AE indicated that the closing balances for the 2002 actual package roll up to the opening balances in the 2003 refiling. In addition to those balances, as stated in the notes to Schedules 10-B-2 and 20-B-2, the 2001 and 2002 capital deferral amounts have been included in the opening balances for 2003 so that a full year's return on rate base can be applied. AE submitted that this eliminated the requirement for a deferral amount on these items in 2003. The 2001 capital deferral accounts were approved in the context of the 2003-2004 GTA and the 2002 capital deferral accounts were approved in a separate proceeding. Therefore they should be and have been included in the refiling. Schedules 10-B-3 and 20-B-3 reflect the adjustment to opening accumulated depreciation for these deferral accounts and similarly should also be recognized to avoid further deferral account treatment. Schedules 10-B-4 and 20-B-4 are the same as their 2002 actuals package counterparts. Schedule 10-B-6 is the same as the 2002 actual package. Schedule 20-B-6 includes the impact of the additional contributions (and amortization of the added contributions) for the adjustment directed by the Board in Direction No. 40. AE has provided additional detail for these reclassified contributions in response to the City of Calgary's comments regarding Board Direction No. 40.

In response to the City of Calgary's comments, AE stated that the net PP&E amounts for 2002 from the 2002 actual package to the 2003 refiling tie exactly.

FIRM

FIRM noted that AE only provided the Mid-Year Net Property for 2002 in the direct response to the Board direction.

Upon FIRM's examination of Schedules 10-B-2 to 6 and 20-B-2 to 6 and comparison to the schedules provided in the April 9, 2003, "2002 Actuals Package" it appeared to FIRM that additional amounts had been included in both the gross plant in service to reflect the 2001 and 2002 capital deferral accounts, the Purchase of the AEC Foster Creek Facilities as well as amounts for depreciation expense on the 2001 capital deferral amounts. FIRM stated that while it was not necessarily disagreeing with AE's calculations, there appeared to be insufficient information and reference on the record about the rationale and detail of the additional calculations shown in Schedules 10-B-2 to 6 and 20-B-2 to 6 and in cross-referenced to the "2002 actuals" shown in the various schedules of the April 9, 2003 filing.

FIRM recommended that:

- AE be directed to provide further details of the calculations of the opening balances for each of Property, Plant and Equipment, Accumulated Depreciation and Accumulated Customer Contributions, and
- AE confirm all of the schedules reflected in its Refiling have incorporated 2002 actuals. If this is not the case or AE cannot confirm, AE should be directed to re-file the appropriate schedules to reflect 2002 "actuals".

Calgary

Calgary noted that there was some discrepancies in the balances provided, but did not view them as sufficient to warrant further examination.

32.1 Views of the Board - DIRECTION 31 – ACTUAL 2002 CLOSING BALANCES

The Board considers that AE has provided additional clarification of the opening balances used in the Refiling in its January 26, 2004 filing. The Board has reviewed the explanations and calculations in that filing and finds them appropriate.

Therefore, the Board considers that AE has complied with Direction 31.

33 DIRECTION 32 – LEAD-LAG STUDY – GST IMPACT

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs AE, in its Refiling, to modify the expense day factor used in the GST impact calculation to reflect capital expenditures lead/lag days and to exclude items that are not subject to GST. The Board notes FIRM's submission that AE did not properly calculate the GST leads and lags associated with GST remittances and input tax credits. The Board holds the view that there are two items comprising the GST working capital requirement for each of the distribution and transmission functions. The first is the lag between the payment of GST on the expenses to suppliers and the receipt of revenue from the customers and the second is the lag between the date of revenue receipt and net GST remittance date.*

Views of the Parties

AE

AE submitted a revised Schedule BD-32.

The expense day factor used in the GST impact calculation has been updated to reflect capital expenditure lead/lag days and now also excludes items that are not subject to GST. The lead/lag days for capital expenditures were calculated using the same approach outlined in ATCO Electric's lead/lag study filed in the 2003/2004 GTA (CAL-ATCOGTA-66). This approach resulted in the following lag, which was calculated, from when the supplier provided the service or material to when the cheque for payment of that service or material cleared the bank.

Table 29. AE Refiling – Lag Calculations

Lag Description	Capital Expenditure Lag (Days)
Materials	38.2
Contractors	42.6
Other	42.7

AE stated that the Schedule BD-32 has also been updated to reflect the remittance lag of 45 days outlined in Decision 2003-071.

AE stated that the impact on working capital in this Direction is shown in Direction 33.

In response to FIRM's comments, AE indicated that the capital expenditures in the working capital calculation agree to the capital expenditures from Schedules 10-B-4 and 20-B-4 as follows:

Table 30. AE Refiling – Capital Expenditures in WC Calculations

	2001 $ Millions Transmission	2001 $ Millions Distribution	2001 $ Millions Total
Capital Expenditures			
Per Working Capital Calculation – Board Direction No. 32			
Materials	20.3	33.2	53.5
Contractor Services	19.3	31.4	50.7
Other	2.9	4.7	7.6
	42.5	69.3	111.8
Per Schedule 10-B-4			49.2
Per Schedule 20-B-4			80.7
			129.9
Less Labour (per Exhibit 138 – as not GST)			<16.4>
Less Fringe Benefits (excluded as no GST)			<1.7>
			111.8

AE stated that the classification between materials, contractor services and other was based on an analysis of capital expenditure information for 2001.

In response to FIRM, AE would point out that FIRM, in their calculation of the GST impacts on working capital, has ignored the GST component on working capital for revenues and expenses. FIRM's calculation only included the lag from when revenues and expense are received and paid to when the GST is submitted but ignored the lead/lag from when the service is provided to when revenue is received or payment is made.

AE stated that FIRM, in their calculation of remittance lag, has expanded on the specific Board Direction instead of using the net remittance lag as the Board directed. FIRM shows the remittance lag as two amounts.

AE stated that the revised amounts following FIRM's recommendation on the net remittance lag would be:

GST Working Capital	2003 $000	2004 $000
Transmission		
Net GST Impact before Remittance Lag Impact	<$82>	$664
Remittance Lag Impact (from FIRM)	180	54
Net GST Impact on Working Capital	$98	$718
Net GST Impact on Working Capital per Refiling	<$69>	$635
Difference – Increase in Working Capital	$167	$83
Distribution		
Net GST Impact before Remittance Lag Impact	$402	$483
Remittance Lag Impact (from FIRM)	<$34>	<$39>
Net GST Impact on Working Capital	$368	$444
Net GST Impact on Working Capital per Refiling	$375	$450
Difference – Reduction in Working Capital	<$7>	<$14>

Given that AE believes that it has followed the intent of the Board's Direction relating to the remittance lag and given the significance of the above, AE recommends that the Board approve the GST working capital amounts as refiled.

In response to Calgary's comments, AE indicated that AE has demonstrated compliance with this Board Direction, as all revisions to working capital have been cross-referenced to the appropriate schedules. The rate case numbers referred to by the City of Calgary that are included in working capital cross reference to the amounts from Board Direction 57.

FIRM

FIRM submitted that the two components of GST lead-lag were as follows:

- GST input tax credit – net lag between the point GST is paid as part of the invoices paid to vendors and the point when the corresponding GST input tax credit is claimed back from the Government;
- GST payable – lag between the point at which GST payable is collected from customers and the point at which the corresponding GST is paid to the Government.

FIRM submitted that the GST component of working capital should be adjusted as indicated in the table below:

Table 31. FIRM Calculation of Lag Times (Days) – GST Component

	Transmission		Distribution	
	2003	2004	2003	2004
GST Remittance Lead				
Receipt of revenue lag	42.8	42.8	42.2	42.2
GST Payment lag	45.0	45.0	45.0	45.0
Net GST Remittance lead	-2.2	-2.2	-2.8	-2.8
GST Remittance Lead Factor	-0.6%	-0.6%	-0.8%	-0.8%
GST Billable	10052	11095	16345	16765
GST Lead on Remittances	-60.6	-66.9	-125.4	-128.6
Lag on Refundable GST				
Payment of invoice lag	37.8	37.8	42.4	42.4
Refundable GST lag	45.0	45.0	45.0	45.0
Net refundable GST lag	7.2	7.2	2.6	2.6
Refundable GST lag factor	2.0%	2.0%	0.7%	0.7%
Lag on refundable GST	240	121	91	89
Net GST Component of working capital	180	54	-34	-39

Calgary

Calgary stated that it appeared that there was no simple way of determining the Capital expenditure numbers on Schedule 1 for this Direction. Calgary further stated that for Company benefits, the amount appeared to all shown as operating expenses (Schedule 1 of Board Direction 32) whereas Calgary expected a portion would relate to capital.

33.1 Views of the Board - DIRECTION 32 – LEAD-LAG STUDY – GST IMPACT

In Decision 2003-071, the Board considered that there were two items comprising the GST remittance and input tax credits. The first was the lag between the payment of GST on the expenses to suppliers and the receipt of revenue from customers. The second was the lag between the date of receipt revenue and net GST remittance date.

The Board considers that the net GST remittance lags for transmission and distribution were determined as 2.2 days and 2.8 days, respectively, in Decision 2003-071. From the Schedule of Transmission Operating Expense Lag Days – GST, submitted by AE, the Board considers that the net lag on refundable GST for transmission is 45 days minus 37.8 days or 7.2 days. Similarly, from the Schedule of Distribution Operating Expense Lag Days – GST, the Board considers the net lag on refundable GST for distribution to be 45 days minus 42.4 days or 2.6 days.

The Board notes that AE provided a revised lead-lag study. The Board accepts the revised lag times as reasonable and therefore, considers that AE has complied with Direction 32.
The Board will address the determination of working capital using the revised lags in the subsequent sections of this Decision.

34 DIRECTION 33 – NECESSARY WORKING CAPITAL – IMPACT OF GST

The following direction was provided in Decision 2003-071:

> *Therefore, the Board directs AE, in its Refiling, to revise Schedule 1 to FIRM-ATCOGTA-49 showing the lags noted above including the corrections to previously-noted day factors.*

Views of the Parties

AE

ATCO provided a refiled Schedule BD-33.

FIRM

FIRM reiterated its comments for Board Direction No. 32 above.

34.1 Views of the Board - DIRECTION 33 – NWC – IMPACT OF GST

The Board notes that AE and FIRM have reached differing interpretations regarding the net GST impact on transmission and distribution working capital. The Board has summarized the results in the following table:

Table 32. Differing Interpretations – GST Impact on Working Capital

2003 GST Impact on Working Capital

Net Increase (Decrease) on Working Capital	Transmission ($000)	Distribution ($000)	Total ($000)
AE Original	550	(279)	271
AE Revised	(69)	375	306
FIRM Proposal	180	(34)	146

2004 GST Impact on Working Capital

Net Increase (Decrease) on Working Capital	Transmission ($000)	Distribution ($000)	Total ($000)
AE Original	190	(253)	(63)
AE Revised	635	450	1,085
FIRM Proposal	54	(39)	15

Consistent with Decision 2003-071, the Board considers that the GST impact on working capital can be determined as the product of the net lag and the GST refundable/billable. Accordingly, the Board considers FIRM's assessment of the GST impact to be consistent with the direction provided by the Board.

The Board approves the GST impacts as summarized in the following table:

Table 33. Board Approved – GST Impacts on WC

2003 GST Impact on Working Capital

	Transmission ($000)	Distribution ($000)	Total ($000)
Net Increase (Decrease) on Working Capital	180	(34)	146

2004 GST Impact on Working Capital

	Transmission ($000)	Distribution ($000)	Total ($000)
Net Increase (Decrease) on Working Capital	54	(39)	15

To avoid any further delay in setting interim rates, the Board directs AE to incorporate the adjustment required to reflect the Board's findings regarding GST impact on working capital in its 2004 filing for adjustments.

35 DIRECTION 34 – NECESSARY WORKING CAPITAL – RECALCULATION

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs AE, in its Refiling, to provide a new necessary working capital forecast which reflects the Board's determinations in this Decision.*

Views of the Parties

AE

AE provided Revised Schedules 11-B-1 and 11-B-2 for Transmission's new necessary working capital and Revised Schedules 21-B-1 and 21-B-2 for Distribution's new necessary working capital.

FIRM

FIRM did not object to the overall revisions to the Transmission and Distribution working capital calculations subject to comments made elsewhere in the FIRM's submission.

Calgary

Calgary stated that while there appeared to be compliance it was not possible to completely verify compliance due to lack of data.

35.1 Views of the Board - DIRECTION 34 – NWC – RECALCULATION

The Board has directed AE to incorporate the adjustment required for GST impact on working capital in its 2004 filing for adjustments.

Given this adjustment, the Board considers that AE will be in compliance with Direction 34.

36 DIRECTION 35 – AESO PAYMENT ARRANGEMENT

The following direction was provided in Decision 2003-071:

> *The Board notes that there could be some potential savings to be gained from an earlier payment arrangement between ATCO Electric and the AESO. While the Board considers that there could be some merit in implementing such an arrangement, it recognizes that the full impacts and the mechanics of how an earlier payment arrangement might work are still unknown and need to be studies by ATCO Electric and the AESO. Therefore, the Board cannot and will not require this to be done for this GTA. However, the Board directs ATCO Electric to diligently pursue this matter with the AESO with a view to assessing, and possibly designing a new, modified payment arrangement, prior to ATCO Electric's next GTA filing, if possible.*

36.1 Views of the Board - DIRECTION 35 – AESO PAYMENT ARRANGEMENT

This direction required compliance by AE subsequent to the Refiling. In the Refiling AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

37 DIRECTION 36 – TRANSMISSION CUSTOMER CONTRIBUTIONS

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs AE, in its Refiling, to include Transmission Customer Contributions forecasts for 2003 and 2004, as placeholders in the Transmission capital deferral account, based on a five year rolling average of prior years Transmission Customer Contributions. The Board considers that this approach can be used in future GTAs, except in future circumstances where large projects are forecast with known customer contributions.*

Views of the Parties

AE

AE stated that Transmission Customer Contribution forecasts for 2003 and 2004 are now $4 million in each year based on the five year rolling average set out in the Schedule BD-36.

AE stated that these forecasts have now been included in Revised Schedule 10-B-6 for Contributions in Aid of Construction, which is used to arrive at the net rate base numbers on Revised Schedule 9-B-1.

In response to FIRM's comments, AE indicated that because AE treats Transmission contribution balances on a cash basis it is necessary to include the difference in Accounts Receivable to arrive at the cash receipts each year. Although no separate line was shown in Schedule 10-B-6 of the refiling for 2002 changes in Accounts Receivable, the change in Accounts Receivable does form part of the calculation of the "Additions to Property" line.

FIRM

FIRM did not object to the calculation of customer contributions to include a reduction for refunds, but did not agree that changes in Accounts Receivable should form part of the calculation to determine the forecast customer contribution additions.

FIRM recommended the methodology prescribed by the Board should be based on the Additions to contributions, less any refunds in the same year and the Board should direct AE to follow the same. FIRM further stated that the difference between AE's proposed methodology and the methodology that the FIRM advocated were minor. Therefore, FIRM accepted the result of $4.0 million as being a reasonable approximation of Transmission customer contributions for 2003 and 2004.

37.1 Views of the Board - DIRECTION 36 – TRANSCO CUST CONTRIBUTIONS

The Board accepts that AE has incorporated a prior period five-year average to establish placeholders for capital contributions in the transmission capital deferral account as directed.

Therefore, the Board considers that AE has complied with Direction 36.

38 DIRECTION 37 – RECORDING CUSTOMER CONTRIBUTION BY RATE CLASS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to commence recording of customer contributions by rate class effective January 1, 2004.*

38.1 Views of the Board - DIRECTION 37 - RECORDING CONTRIBUTIONS

This direction required compliance by AE subsequent to the Refiling. In the Refiling AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

39 DIRECTION 38 – SOFTWARE DEVELOPMENT CAPITAL EXPENDITURES

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs AE, in its Refiling, to revise its 2004 load settlement systems project to be $2,000,000. The Board approves forecast software development capital expenditures for AE's Transmission and Distribution functions of $3,089,000 and $2,665,000 for 2003 and 2004 respectively.*

Views of the Parties

AE

AE provided a Revised Schedule 25-B-2 where the 2004 load settlement system costs have been reduced to $2,000,000.

In response to Calgary's comments, AE indicated that as can clearly be seen on Schedule 25-B-2 in the refiling, this Direction required an adjustment to the software costs, which ATCO Electric treats as necessary working capital.

AE stated that as necessary working capital was adjusted there was no requirement to adjust the capital expenditure forecast as the City of Calgary implies.

Therefore, ATCO Electric submits that it has complied with this Direction.

FIRM

FIRM did not object to AE's calculations.

Calgary

Calgary stated that since it was unclear how AE adjusted the capital expenditure forecast, it was not possible to confirm compliance.

39.1 Views of the Board - DIRECTION 38 – SOFTWARE CAP EX

The Board considers that AE has included a provision of $2,000,000 for load settlement system costs in 2004 as directed.

Therefore, the Board considers that AE has complied with Direction 38.

40 DIRECTION 39 – DEPRECIATION STUDY IN 2005 TEST YEAR

The following direction was provided in Decision 2003-071:

> *The Board notes that at least two more years of data will be available for study when ATCO Electric files its 2005 GTA. At that time, the Board considers that ATCO Electric should file a complete depreciation study with all of the electronic data used to determine each of the depreciation parameters it proposes to use in the 2005 test year. Accordingly, the Board directs ATCO Electric to provide a complete new depreciation study, including all electronic files required to reproduce that depreciation study when its 2005 GTA is filed.*

40.1 Views of the Board - DIRECTION 39 – 2005 DEPRECIATION STUDY

This direction required compliance by AE subsequent to the Refiling. In the Refiling, AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

41 DIRECTION 40 – CUSTOMER CONTRIBUTIONS INCREASE IN 2000

The following direction was provided in Decision 2003-071:

> *However, the Board directs AE, in the Refiling, to reflect the increase in contributions in 2000 in its 2002 year-end capital accounts so that the amount is appropriately included in 2003 no-cost capital.*

Views of the Parties

AE

Table 34. AE Refiling – Increase in Customer Contributions

	$ Millions
Customer Contributions per 2002 Actual Package	265.4
Increase in Year 2000 Contributions	0.6
Contributions per Revised Schedule 20-B-6	266.0
	$ Millions
Accumulated Amortization of Contributions per 2002 Actual Package	103.1
Increase in Year 2000 Amortization	0.1
Accumulated Amortization per Revised Schedule 20-B-6	103.2

In response to Calgary's comments, AE indicated that AE investigated all meter contributions, which had been incorrectly classified as gross salvage. This change in the refiling increased the amount from the $480,000 identified in the Decision (for the year 2000 only) to $600,000 with an accumulated amortization adjustment of $100,000 to 2002 year end.

FIRM

FIRM did not oppose the customer contribution changes shown by AE.

Calgary

Calgary made note of the fact that according to the Decision at page 96, the amount was $480,000, but the adjustment seemed to be $0.6 million. Calgary also stated that while the Board directed the amount to be recorded in 2002 year end to be fully reflected in 2003, there was an adjustment shown for 2000 amortization.

41.1 Views of the Board - DIRECTION 40 – 2000 CONTRIBUTIONS INCREASE

The Board considers that the $480,000 was a net increase in the contributions. Considering that the $0.6 million less $0.1 million is about $480,000, the Board is satisfied that AE has updated its schedules to include the $480,000 increase in contributions in 2000 in its 2002 year-end capital amounts.

Therefore, the Board considers that AE has complied with Direction 40.

42 DIRECTION 41 – ENERGY MANAGEMENT AMORITIZATION PERIOD

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to amortize the remaining unamortized costs of its Energy Management Services projects over 15 years.*

Views of the Parties

AE

Extending the amortization period for Energy Management Services results in a reduction in depreciation expense as follows:

	2003	2004
December 2002 Refiling		
Depreciation Life	331,497	176,435
Amortization of Net Salvage Differences	<780>	<780>
	330,717	175,655
December 2003 Compliance Filing		
Depreciation Life	275,674	275,674
Amortization of Life Differences	<166,359>	<166,359>
Amortization of Net Salvage Differences	<129>	<129>
	109,186	109,186
Change in Depreciation Expense	<221,531>	<66,469>

The impact of this direction can be seen in the response to Direction 61 (page 67), which is the reconciliation of the revenue requirement included in the application to the revenue requirement included in this Refiling.

In response to Calgary's comments, AE indicated that the Fixed Asset Account "Energy Management Services" has always been classified as part of Distribution Assets. All the revenue requirement components (depreciation, return and income taxes) are assigned 100% to Distribution. Therefore the Board directed life extension impacts only the Distribution revenue requirement.

FIRM

FIRM stated that it agreed with the calculations provided by AE that showed that reduction in the depreciation expense for 2003 and 2004, but stated that it was unable to understand and reconcile the revenue requirement changes shown in Direction 61 relative to this and other adjustments.

Calgary

Calgary was of the opinion that the implication of the Decision was that this Direction should be applied to both Distribution and Transmission and that it appeared that AE had only applied it to Distribution.

42.1 Views of the Board - DIRECTION 41 – ENERGY MANAGEMENT

The Board notes that Decision 2003-071 clearly sets out that the Energy Management Services account was a Distribution Account.[7] The Board has also reviewed AE's approach and calculations and is satisfied that the adjustments made to reflect the increase in depreciation life are appropriate.

Therefore, the Board considers that AE has complied with Direction 41.

43 DIRECTION 42 – ACCOUNTING FOR MATERIAL RETURNED TO STORES

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to begin maintaining information regarding the material returned to stores by account on an annual basis so that the potential magnitude of this issue can be assessed. Further, the Board directs ATCO Electric, at its next GTA, to file a thorough analysis of the issue of the appropriate policy for returns to stores, including an analysis of the approach of other utilities to these items*

43.1 Views of the Board - DIRECTION 42 –MAT'L RETURNED TO STORES

This direction required compliance by AE subsequent to the Refiling. In the Refiling AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

44 DIRECTION 43 – ALLOCATION OF COSTS BETWEEN NEW ADDITIONS AND COST OF REMOVAL

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, commencing January 1, 2004, to track the level of any costs allocated to the removal of an existing asset when a replacement of that asset is made. Further, the Board directs ATCO Electric, when it files its next depreciation study, to provide that information and explain how it was used*

44.1 Views of the Board - DIRECTION 43 – ALLOCATION ADDs & REMOVALs

This direction required compliance by AE subsequent to the Refiling. In the Refiling AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

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[7] Decision 2009-071 page 98

45 DIRECTION 44 – ACCOUNTING FOR REIMBURSED RETIREMENTS

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs ATCO Electric to begin maintaining information regarding reimbursed retirements by account on an annual basis so that the potential magnitude of this issue can be recognized. Further, the Board directs ATCO Electric, at its next GTA, to file a thorough analysis of the issue of the appropriate policy for reimbursed retirements.*

45.1 Views of the Board - DIRECTION 44 –REIMBURSED RETIREMENTS

This direction required compliance by AE subsequent to the Refiling. In the Refiling, AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

46 DIRECTION 45 – REPORTING ALLOCATION OF LABOUR COSTS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, as part of its annual financial report to the Board, to provide (in addition to the total FTEs and O&M costs) the allocation of the labour costs between O&M, Capital and Other.*

46.1 Views of the Board - DIRECTION 45 – REPORTING LABOUR COSTS

This direction required compliance by AE subsequent to the Refiling. In the Refiling AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

47 DIRECTION 46 – IMPACT OF REDUCTION IN VACANCY RATE

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs AE, in its Refiling, to revise its vacancy rate forecast from 4% to 5% in each of 2003 and 2004, and to reduce its operating cost forecasts accordingly.*

Views of the Parties

AE

AE adjusted its schedules to include the following reductions:

Table 35. AE Refiling – Revised Vacancy Rates

Function	2003 FTE Reduction	2003 Reduction ($* 1000)	2004 FTE Reduction	2004 Reduction ($*1000)
Transmission'	2.2	124	2.2	129
Distribution	7.7	434	7.7	452
Corporate	0.6	34	0.6	35

In response to Calgary's comments, AE indicated that AE could confirm that the 12% fringe rate was used to calculate fringe benefit costs that were included in the 2003-2004 revenue requirements. As there were no disallowances surrounding the fringe rate during the proceeding it is reasonable to use this rate in the calculation of the impact of changes to the vacancy rate. AE submitted that, in suggesting that a value of $56,668 per FTE in Finance and Corporate Services is low, the City of Calgary did not factor in that only 69% of the 0.6 FTE is charged to operating costs. As can be seen in response to Board Direction No. 66 (page 51 of 73 of the refiling), AE attributed a labour cost excluding fringe benefits of $73,000 per FTE, which AE submitted was reasonable.

As such, AE believes that there has been complete compliance with this Direction.

FIRM

FIRM did not object to the calculations made by AE.

Calgary

Calgary noted that although the amount of labour cost appeared to be correct for AE, AE rounded to its advantage as the specific O&M percentages should have been 69.3% and 69.4%, while AE used 69%. Calgary also stated that the origin of the 12% that was used for fringe benefits was not clear.

Calgary further commented that AE adjusted part of Finance and Corporate Services for a 5% vacancy to bring the average to 4.6% from 3.7% or 0.6 FTE. This resulted in a value of $34,000 to that 0.6 FTE, and only put a total value of $56,668 per FTE in Finance and Corporate Services. In Calgary's view, this number was low.

47.1 Views of the Board - DIRECTION 46 –REDUCTION IN VACANCY RATE

The Board notes Calgary's concerns regarding the origin of the fringe benefits factor of 12% used to adjust the labour correction associated with the change from a 4% to a 5% vacancy rate. However, given AE's comments indicating that it used a fringe benefits factor of 12% in its prior calculations, the Board considers the fringe benefit adjustment factor utilized by AE to be reasonable.

The Board notes that AE has made the adjustments for Finance and Corporate Services to adjust the vacancy provision from 4% to 5%. Although Calgary considered the outcome for this adjustment to be less than expected, the Board notes that the adjustment was determined on a similar basis for both the Distribution and Transmission adjustments. In this regard, the calculation utilized the same corporate average salary of $73,000 (for 2003), applied an adjustment for labour/FTE and applied the same fringe benefit adjustments. The Board considers the method to be satisfactory and considers the result to be appropriate.

Therefore, the Board considers that AE has complied with Direction 46.

48 DIRECTION Page 133 – REDUCTION OF PUBLIC INFORMATION COSTS

The following direction was provided in Decision 2003-071 on page 133:

> *Therefore, the Board will reduce AE's proposed expenditures for 2003 by $2 million and 2004 by $1.5 million.*

Views of the Parties

AE

AE reduced its provision for public information costs by $2 million in 2003 and $1.5 million for 2004.

FIRM

FIRM agreed with the calculations as submitted by AE.

48.1 Views of the Board - DIRECTION P. 133 – REDUCED PUBLIC INFO COSTS

With reference to the direction on page 133 of Decision 2003-071, the Board is satisfied that AE has reduced its provision for public information costs by $2 million in 2003 and $1.5 million for 2004 as directed.

Therefore, the Board considers that AE has complied with Direction 46.

49 DIRECTION 47 – FORECAST Vs. ACTUAL COMMUNICATION EXPENDITURES

The following direction was provided in Decision 2003-071:

> *The Board directs AE, in its Refiling, to present a consolidated report of approved and forecast communication type expenditures in all direct and corporate allocated categories so as to track and report on the categories of its communication expenditures during 2003 and 2004 to assist in establishing an appropriate baseline for future GTA costs. Further, the Board directs AE to report the actual results at its next and subsequent GTAs or negotiated settlement processes in a similar consolidated format.*

Views of the Parties

AE

AE provided a summary of 2003 and 2004 communication expenditure forecasts for accounts 70100, 72100, 85900 and 87900 and indicated it would comply with this direction to report actual results in a similar format at its next GTA.

In response to FIRM's claims, AE indicated that the consolidated report incorporated Corporate Communications Department costs, which focused on which mass communications to consumers as well as community relations type expenditures incurred by the field offices. There may be some "other" communication type expenditures incurred, however, they would be minor in nature and would not be forecast or tracked separately.

As well, AE stated that the accounts referenced in Exhibit 836 related to 2002 actuals and there is no forecast in the GTA test years for these accounts.

Finally, AE stated that the labour costs included in account 72100 are the labour costs for the Corporate Communications department and are required to provide both internal and external communication support to AE.

As such, AE has complied with the Board Direction in providing a consolidated report of approved and forecast communication type expenditures and no further Board Direction is required.

FIRM

FIRM submitted that ATCO had not fully complied with the Board's Directive, as communication type expenditures disclosed during the hearing were not fully disclosed in ATCO's response. For example, Exhibit 836, Schedule 8-B-2, indicated that in addition to community relation expenses, Account 87900 also included other communication expenditures. Further, Exhibit 836 explained in reference to Account 70300 various customer and promotional material expenses which were not shown on BD-47 Schedule 1. Accounts within the 70 Function Total, in addition to account 70100, had been referenced in the hearing as including communication type costs yet ATCO did not include any of these accounts (70200-70900) on Schedule 1 BD-47. Distribution miscellaneous (87900) was shown to include community relations, but no reference to other communication costs incurred within this category had been disclosed. ATCO's schedule BD-47 showed Account 72100 as a Labour amount without providing a reference of the type of services provided or disclosure of any expenditures for the associated communication and promotional materials produced by these in-house staff.

FIRM submitted that the Board should direct ATCO to comply with a full disclosure of all communication type expenditures, as ATCO would use this schedule as the comparative basis for future GTA applications.

49.1 Views of the Board - DIRECTION 47 – F/C Vs. ACTUAL COMMUNICATION

Noting FIRM's concerns, the Board observes that, at least in years prior to 2003, certain accounts such as 70300 appear to have contained communications related costs, but were excluded from AE's baseline submission. The Board initially shared FIRM's concern that the schedule may have excluded some accounts that contained communications related costs in 2003 and 2004. However, AE has subsequently explained to the Board's satisfaction that the costs were removed.

Therefore, the Board considers that AE has complied with Direction 47.

50 DIRECTION 48 – FORECAST OF UNCOLLECTIBLE ACCOUNTS

The following direction was provided in Decision 2003-071:

> *While the Board does not intend to direct implementation of an unfunded reserve account for payment default as proposed by IPCCAA in this Decision, the Board directs AE to fully address perspectives related to the evolution of the appropriate treatment of its credit risk in its subsequent GTA process*

50.1 Views of the Board - DIRECTION 48 – F/C UNCOLLECTIBLE ACCOUNTS

This direction required compliance by AE subsequent to the Refiling. In the Refiling AE indicated that it would comply with this Direction at the appropriate time. (See Summary of Outstanding Directions from Decision 2003-071)

51 DIRECTION 49 – DEFERRED PENSION BALANCE RECOVERY

The following direction was provided in Decision 2003-071:

> *The Board directs AE, in its Refiling, to remove the provision of $900,000 for the deferred pension balance in each of 2003 and 2004. Further, the Board directs AE, in its next GTA, to re-examine the pension treatment, including an assessment of how the provision could appropriately be handled in the context of total pension funding for the ATCO Group.*

Views of the Parties

AE

AE indicated that the provision of $900,000 has been removed and is no longer included in the Corporate Administration and General Costs (Revised Schedule 22-B-3). The No-cost Capital (Revised Schedule 28-B-3) balance for deferred pension remains at $2,760,000 during the test period.

AE indicated it would re-examine its pension treatment and provide a status at its next GTA.

FIRM

FIRM stated there was compliance with the re-filing.

Calgary

Calgary stated that the re-filing was in compliance.

51.1 Views of the Board - DIRECTION 49 – DEF'D PENSION BAL RECOVERY

The Board considers that AE has appropriately removed the provision of $900,000 for the deferred pension balance in each of 2003 and 2004 and accepts that AE has confirmed it will re-examine the pension treatment in its next GTA.

The Board notes that the check for compliance with the remainder of Direction 49 will be made after AE files its next GTA. (See Summary of Outstanding Directions from Decision 2003-071)

52 DIRECTION 50 – ALLOCATION OF CORPORATE COSTS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to exclude from its revenue requirement the forecast energy costs and use the reduced amounts to allocate its corporate costs in 2003 and 2004.*

Views of the Parties

AE

AE stated that the impact of removing the forecast energy costs from the corporate allocation is outlined in the attached schedules and is as follows:

	2003 $000	2004 $000
ATCO/CU Cost Allocation (Schedule A)	53	56
Aircraft Cost Allocation (Schedule E)	6	6
Reduced Revenue Requirement	59	62

AE indicated that this impact was calculated by removing all energy costs in all ATCO Group companies and was reflected in Revised Schedule 22-B-3.

As a result, the following energy costs were removed from the calculation:

- Gas commodity costs;
- Electric fuel and purchased power costs;
- AP 2000 Coal costs
- AP tolling nature natural gas costs
- Midstream gas purchases for third parties
- Frontec fuel expenses

AE noted that this approach resulted in a different impact than outlined in response to CAL-ATCOGTA-92 where ATCO was only asked to remove the gas commodity costs and the electric fuel and purchased power costs from the calculation.

In response to intervener's comments, AE indicated that Calgary has highlighted the issue arising out of this Direction. That is, whether the Board considered "energy costs" to be "all" or to be limited to "gas and electric".

In response to CAL-ATCOGTA-2, AE only removed the gas and electric energy costs as that was all the IR requested.

In compliance with this Direction, in AE's view it makes no sense for energy costs to be limited to gas and electric. The Board requested that ATCO remove energy costs from its corporate cost allocation. It therefore makes no sense to remove gas and electric energy costs yet include the other ATCO companies' energy costs in the allocation. Such an approach would adopt inconsistent treatments within the ATCO Companies.

As such, AE believes it has calculated the impact of removing energy costs from the corporate cost allocation in compliance with the Board's Direction.

Finally, the impact of removing only the gas and electric prices was $189,000 in 2003 and $199,000 in 2004. This was outlined in response to CAL-ATCOGTA-2. The numbers quoted in Board Decision 2003-071 of $382,000 in 2003 and $399,000 in 2004 incorrectly added the impact from ATCO's original submission to the impact shown in CAL-ATCOGTA-2. This was incorrect as the impact from the response to CAL-ATCOGTA-2 replaced the impact from the original submission.

As a result of the above, AE believes it is in compliance with Board Direction No. 50 and no adjustments to AE's refiled revenue requirement amounts are needed.

FIRM

FIRM disagreed with AE's proposal. FIRM submitted that firstly, this methodology was contrary to what the Board stated in the Decision. Secondly, the amounts removed from the other ATCO Companies were new and untested evidence; and thirdly, even if this information and resulting new proposed methodology was part of the proceeding instead of being introduced in the Refiling, it is unlikely the Board and Interveners could verify whether the amounts removed were valid for removal and the correct amounts to be removed. This is simply because the previous allocation factors for the other ATCO Companies were based on their audited statements, whereas it is very likely that the proposed amounts for removal for the other ATCO Companies in AE's new proposal cannot be independently verified or would likely be considered confidential by AE.

FIRM recommended the Board use the methodology it approved for calculating the ATCO/CU costs as outlined in CAL-ATCOGTA-2 and referenced by the Board at p. 156 of the Decision. As noted by the Board at p. 156, the change in the allocation methodology results in a reduction in revenue requirement of $382,000 in 2003 and $399,000 in 2004. FIRM recommended the Board reduce this amount from AE's final revenue requirement.

Calgary

Calgary noted that AE removed all energy costs so that the reduction for AE was only $53,000 instead of $189,0000 for 2003 and stated that compliance was dependent on whether the Board considered "energy costs" to be "all" or to be limited to "gas and electric".

52.1 Views of the Board - DIRECTION 50 – ALLOCATION OF CORP COSTS

The Board considers that AE's approach does not comply with Direction 50. Taken in context, Direction 50 clearly indicated that the energy costs flowed through to customers were those that should be removed from the allocation methodology. In Decision 2003-071, the Board indicated that the evidence on the record was that allocation indicated that removing commodity prices would result in a reduction of $189,000 of Corporate Overheads allocated to AE in 2003 and $199,000 in 2004 (per AE's response to CAL-ATCOGTA-2).

Accordingly, the Board considers that a reduction of $189,000 of Corporate Overheads allocated to AE in 2003 and $199,000 in 2004 rather than the reduction of $59,000 and $62,000 set out in AE's Refiling is required. However, the Board is not aware of the breakdown between Transmission and Distribution required to appropriately reflect this finding.

To avoid any further delay in setting interim rates, the Board directs AE to incorporate the adjustment required to reflect the corporate cost allocation reduction of $189k and $199k allocated to AE for 2003 and 2004 as appropriately allocated between Distribution and Transmission in its 2004 filing for adjustments.

53 DIRECTION 51 – "FORECAST ADJUSTMENT FACTOR" FOR O&M

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs AE, in its Refiling, to reduce its O&M amounts by a further adjustment, to be referred to as the "Forecast Adjustment Factor", reducing total transmission and distribution O&M in the amount of $5 million in each of 2003 and 2004. The Board further directs that this adjustment be allocated to Transmission in the amount of $1.7 million and to Distribution in the amount of $3.3 million.*

Views of the Parties

AE

AE stated that these reductions have been reflected in Revised Schedule 5-B-1 for Transmission and Revised Schedule 15-B-1 for Distribution.

FIRM

FIRM did not object to the calculations.

Calgary

Calgary noted that AE had complied with this Direction.

53.1 Views of the Board - DIRECTION 51 – F/C ADJ FACTOR FOR O&M

The Board considers that AE has appropriately incorporated the O&M reductions of $5 million in each of 2003 and 2004.

Therefore, the Board considers that AE has complied with Direction 51.

54 DIRECTION 52 – RECALCULATION OF REVENUE BASED ON REVISED HEATING DEGREE DAYS (HDD)

The following direction was provided in Decision 2003-071:

> *The Board directs AE, in its Refiling, to recalculate the HDD using the 1997-2001 period including the year 2000 in its assessment of 2003 and 2004 HDD. The recalculated HDD are then to be applied to recalculate and increase the consumption forecasts for all impacted customer groups.*

Views of the Parties

AE

AE recalculated the HDD including the year 2000.

FIRM

FIRM did not object to the adjustments shown in the refiling.

54.1 Views of the Board - DIRECTION 52 – RECALC REV REVISED HDD

The Board considers that AE has appropriately adjusted the HDD and has appropriately recalculated the consumption forecasts for affected customer groups as directed.

Therefore, the Board considers that AE has complied with Direction 52.

55 DIRECTION 53 – RECALCULATION OF REVENUE FOR LARGE OILFIELD CUSTOMERS

The following direction was provided in Decision 2003-071:

> *The Board directs AE, in its Refiling, to incorporate a growth factor of 0.5% over 2003 in its 2004 forecast for Large Industrial Oilfield customers as well as the previous direction to incorporate any appropriate HDD adjustments in this customer class incorporating the 1997-2001 HDD calculations including the year 2000.*

Views of the Parties

AE

AE provided a schedule with the revisions.

In response to intervener's comments, AE indicated that this class was not impacted by the HDD adjustment.

FIRM

FIRM did not object to the forecasts shown in the refiling. FIRM also commented that AE should confirm that large oilfield customers were not impacted by the HDD adjustment.

55.1 Views of the Board - DIRECTION 53 – LARGE OILFIELD REVENUE

The Board considers that AE has appropriately incorporated the provisions required by this direction.

Therefore, the Board considers that AE has complied with Direction 53.

56 DIRECTION 54 – RECALCULATION OF REVENUE FOR SMALL INDUSTRIAL OILSANDS CUSTOMERS

The following direction was provided in Decision 2003-071:

> *Accordingly, the Board directs AE, in its Refiling, to adjust its 2004 average consumption for the Small Industrial Oilsands customer category to 33.8 MW.h/month with the provision that AE incorporate any appropriate HDD adjustments in this customer class incorporating the 1997-2001 HDD calculations including the year 2000 in its Refiling, as previously directed.*

Views of the Parties

AE

AE provided a schedule with the revisions.

In response to intervener's comments, AE indicated that this class was not impacted by the HDD adjustment.

FIRM

FIRM did not object to the forecasts shown in the refiling. FIRM also commented that AE should confirm that small industrial oilsands customers were not impacted by the HDD adjustment.

56.1 Views of the Board - DIRECTION 54 – SMALL INDUSTRIAL OILSANDS

The Board considers that AE has appropriately incorporated the provisions required by this direction.

Therefore, the Board considers that AE has complied with Direction 54.

57 DIRECTION 55 – RECALCULATION OF REVENUE FOR COMPANY RURAL FARM CUSTOMERS

The following direction was provided in Decision 2003-071:

> *The Board directs AE, in its Refiling, to increase the 2003 and 2004 customer forecasts for the Company Rural Farm customer category by 300 customers in each year so as to utilize a Board approved forecast of 17,519 customers in 2003 and 17,801 customers in 2004.*

Views of the Parties

AE

AE provided a schedule with the revisions.

FIRM

FIRM did not object to AE's calculations.

57.1 Views of the Board - DIRECTION 55 –COMPANY RURAL FARM

The Board considers that AE has increased the 2003 and 2004 customers by 300 in each year and appropriately incorporated the provisions required by this direction.

Therefore, the Board considers that AE has complied with Direction 55.

58 DIRECTION 56 – PROVISION FOR HEARING COSTS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to include in its revenue requirements, the provision of $3.25 million in hearing cost funding to be included in each of ATCO Electric's 2003 and 2004 revenue requirements, appropriately split between Distribution and Transmission.*

Views of the Parties

AE

AE indicated that the Refiling calculations were in Revised Schedule 22-B-3.

FIRM

FIRM did not object to AE's compliance with this Direction.

58.1 Views of the Board - DIRECTION 56 – PROVISION FOR HEARING COSTS

The Board considers that AE has appropriately included $3.25 million in hearing cost funding to be included in each of its 2003 and 2004 revenue requirements.

Therefore, the Board considers that AE has complied with Direction 56.

59 DIRECTION 57 – 2002 YEAR-END HEARING COST RESERVE BALANCE

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to amend the balance for the hearing cost reserve by showing the assignment of the provision of the accumulated year-end 2002 balance of approximately $7.7 million to a deferral account and further the Board directs ATCO Electric to bring forward this balance at the next upcoming consolidated deferral account disposition application. Since this change of settlement is effective January 1, 2003, ATCO Electric is only entitled to carrying charges from January 1, 2003 as part of the deferral account settlement. Depending on the net balance in the consolidated deferral account balance, the Board expects that AE indicated that it would provide appropriate options for the length of time for disposition of any balances.*

Views of the Parties

AE

AE indicated that the Refiling calculations were in the attached Revised CAL-ATCOGTA-84(c) Schedule 1 showing the closing 2002 hearing reserve balance being removed from the opening 2003 balance.

The updated mid-year hearing reserve balances are shown on the working capital Revised Schedules 11-B-2 for Transmission and Revised Schedule 21-B-2 for Distribution.

In response to intervener's comments, AE indicated that it is completely inappropriate to require AE to base its rate case allocation on the refiled 2003-2004 revenue requirement amounts. This would be contrary to all the other Corporate Administration and General allocations in the filing. These allocations for the test years are based on Board accepted practice of using the second preceding year when allocating costs. This practice would only be reviewed where there was a known significant change to the organization, which impacted these percentages.

As such, AE feels there is complete compliance with this Direction and no adjustment to either Transmission's or Distribution's revenue requirement is needed.

FIRM

FIRM noted that AE set aside the $7.7 million of the balance in the HCA, as at December 31, 2002, to a deferral account. In other words, the only expense included in the 2003 and 2004 forecast revenue requirement was the $3.25 million approved each year by the Board in Decision 2003-071 (p. 196).

The Board also stated at page 197 of Decision 2003-071 that it "approves AE's allocation of hearing costs by revenue requirement until the next GTA." The hearing costs allocated to the Transmission function in 2003 and 2004 are noted in the table below:

		2003	%	Diff	2004	%	Diff
Transmission	Sc.. 4-B-1	143.6	38%		158.5	40%	
Distribution	Sc.. 12-B-1	233.4	62%		239.4	60%	
Total Revenue Requirement		377.0	100%		397.9	100%	

Allocation of Rate Hearing Costs per Response to Board Direction No. 57

	2003	%	Diff	2004	%	Diff
Transmission	1,170.0	36%	-2.09%	1170	36%	-3.83%
Distribution	2,080.0	64%	2.09%	2080	64%	3.83%
	3,250.0	100%		3250	100%	

Based on the above, FIRM submitted it appears the amount of rate hearing costs allocated to the Transmission Function was understated by 2.09 % in 2003, or $70,000 (0.0209 times $3.25 million) and 3.83% in 2004, or $125,000 (0.383 times $3.250 million). FIRM submitted these changes should be made to be consistent with the Board's decision.

59.1 Views of the Board - DIRECTION 57 – 2002 YE HEARING COST RESERVE

The Board considers the amounts noted by FIRM to be minor considering the judgment employed in determining the allocation methodology in the first instance.

Therefore, the Board considers that AE has complied with Direction 57.

60 DIRECTION 58 –TRANSMISSION DEFERRAL ACCOUNT PAYABLE TO AESO

The following direction was provided in Decision 2003-071:

> *The Board directs AE to include, in its Refiling, to advise the Board of the final amounts for the Transmission deferral account that will be paid to the AESO on October 31, 2003 including revised carrying costs.*

Views of the Parties

AE

AE provided information showing the AESO invoice and carrying cost calculations.

AE stated that the final amounts were:

Deferral amount approved in Decision 2003-071	$2,745,000
2003 Carrying Costs	$87,000

FIRM

FIRM did not oppose AE's calculation of interest for 2003.

60.1 Views of the Board - DIRECTION 58 –TRANSCO DEFERRAL ACCOUNT

The Board accepts AE's determination of 2003 carrying costs and associated payment and approves their inclusion in the TRANSCO Deferral Account. Therefore, the Board considers that AE has complied with Direction 58.

61 DIRECTION 59 – DATE FOR PROVIDING REFILING

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to provide its Refiling to the Board and all parties on or before October 21, 2003. Further, ATCO Electric shall advise all parties that reply comments are due to the Board on or before November 3, 2003.*

Views of the Parties

AE

As outlined in AE's October 9, 2003 letter to the Board and approved by the Board in their October 15, 2003 response, AE's Refiling is required on or before December 1, 2003 with reply comments from Interested Parties on the Refiling by December 15, 2003.

FIRM

FIRM noted that no response was required for this Direction.

61.1 Views of the Board - DIRECTION 59 – DATE FOR PROVIDING REFILING

The Board considers that AE has complied with Direction 59 as revised by the Board in its October 15, 2003 letter.

Therefore, the Board considers that AE has complied with Direction 59.

62 DIRECTION 60 – SUMMARY OF ATCO UTILITIES MATTERS TO BE HANDLED IN OTHER PROCEEDINGS – TO BE EXAMINED IN CONJUCTION WITH DIRECTION NO. 65

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric to provide a summary of all matters that will be handled in other proceedings with sufficient explanation of the issue, the page reference to this decision, and the expected timing and process of the resolution.*

Views of the Parties

AE

AE indicated that an update of all ATCO Utilities matters that will be handled in other proceedings was provided in AE's October 17, 2003 letter to the Board (AE indicated that the Refiling calculations were in the attached). The matters specifically relating to AE are:

Table 36. AE Refiling – Update on ATCO Utilities Matters in Other Proceedings

Page Reference to Decision	Matter	Explanation	Timing and Process
6	Sale of Retail Function	The ATCO Utilities have filed an application with the Board to assign its regulated retail functions to Direct Energy Regulated Services	Reply argument has been filed October 15, 2003. Within 30 days of receiving a Board Decision on this application ATCO Electric will file a recommendation on the process to deal with any adjustments to its 2003/2004 revenue requirement. This timing is in accordance with Board Direction #2 of Decision 2003-071.
7	Executive Compensation	The ATCO Utilities have filed an application with the Board to approve the amounts of ATCO/CU executive compensation allocated to ATCO Gas, ATCO Electric and ATCO Pipelines.	The Board has set a hearing date of March 3, 2004 to deal with this application. ATCO Electric proposes that within 30 days of a decision being rendered on this application ATCO Electric will file the final amounts to be included for executive compensation in its 2003/2004 revenue requirements. This filing will also outline a process for the disposition of any differences between the placeholder amounts and the approved amounts.
24	ATCO I-Tek Information Technology MSA	As a result of the Board's September 26, 2003 decision on this issue, a separate collaborative process has been established with Interested Parties to develop a Terms of Reference for the benchmarking study. Once the Terms of Reference have been agreed to, a benchmarking study will be undertaken.	The timing for the collaborative process is outlined in ATCO's letter to the Board of November 28, 2003. Within 30 days of receiving Board approval on the service levels and fair market value of the services being provided, ATCO Electric will file the final I-Tek costs to be included in its 2003/2004 revenue requirement. This filing will also outline a process for the disposition of any differences between the placeholder amounts and the approved I-Tek amounts.
14	ATCO I-Tek Business Services Billing and Customer Care	A new MSA is being negotiated with I-Tek Business Services for the reduced suite of services that will be required by ATCO Electric after the transfer of the responsibility to provide the regulated energy products to DERS. A separate collaborative process with Interested Parties will be developed to establish the terms of reference for the benchmarking study. Once the terms of reference have been agreed to and approved, a benchmarking study will be undertaken.	The timing and subsequent approvals of this process is dependent on the timing and outcome of the retail sale application. However, within 30 days of Board approval of the volumes of the services provided under the contract, ATCO Electric will file the final I-Tek Business Services Billing and Customer Care costs to be included in its 2003/2004 revenue requirement. This filing will also outline a process for the disposition of any differences between the placeholder amounts and the approved billing and customer care amounts.

Page Reference to Decision	Matter	Explanation	Timing and Process
	Generic Cost of Capital	For 2004, in accordance with Board Decision 2003-071, the following are placeholders to be dealt with in the Generic Cost of Capital Proceeding:	Within 30 days of a decision being rendered on this application ATCO Electric will file the final amounts to be included for capital structure in its 2003/2004 revenue requirements.
46/47		The capital structure in 2004 of 32% for Transmission and 35% for Distribution for 2004.	This filing will also outline a process for the disposition of any differences between the placeholder amounts and the approved billing and customer care amounts.
54		The rate of return of 9.4%.	

FIRM

FIRM referred to its comments on each specific direction outlined in the AE Table and stated that where AE had not addressed the specific placeholder in the Refiling as a separate direction or in response to Board Direction 65, FIRM recommended that AE provide references to the Application that showed the derivation of each of the amounts.

62.1 Views of the Board - DIRECTION 60 –MATTERS IN OTHER PROCEEDINGS

The Board accepts that the listing and explanations provided by AE meet the expectations of this Direction.

Therefore, the Board considers that AE has complied with Direction 60.

63 DIRECTION 61 – DETAILED RECONCILITATION OF AE REQUESTED REVENUE REQUIREMENT TO REVENUE REQUIREMENT APPROVED BY BOARD

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, for each of Transmission and Distribution, in its Refiling, to provide a summary that sets out a detailed reconciliation of its requested revenue requirement for 2003 and 2004 in its Application to the revenue requirement approved by the Board in this Decision.*

Views of the Parties

AE

AE indicated that the Refiling calculations were in Schedule BD-61.

In response to intervener concerns, AE indicated that with respect to a narrative explanation as to all the secondary changes (which FIRM states are of a smaller magnitude). AE submitted that the secondary impacts, which are impacts on the rate base component of revenue requirement, would arise from changes to working capital as a result of disallowances relating to operating costs. AE stated that it is not required to provide the formulas as the electronic schedules provided in the refiling are all linked and are the same model as that used in the GTA Application. The secondary impacts are calculated automatically by the model and require no inputting by AE staff.

AE stated that FIRM has also stated that some of the "Application" numbers shown on Schedule BD-61 do not appear to agree to the ATCO Electric Application. This assertion is not correct as all amounts shown on Schedules 4-B-1 and 12-B-1 agree to the "Application" line shown on Schedule BD-61.

FIRM

FIRM stated that while AE has provided numbers for the primary impact of the specific changes directed by the Board (i.e. O & M, Depreciation, Income Tax, etc.), AE did not provide the detailed reconciliation for the secondary impacts of the change such as the rate base, return, income tax and depreciation expense impacts of capital changes, depreciation rate changes, changes in the second test year as a result of first test year changes etc. As well, some of the changes to O & M were also shown as having Return and Income Tax impacts. Finally, the "Application" numbers shown for Depreciation and other items did not appear to agree with the AE Application.

FIRM did not believe that all of the required detailed spreadsheets needed to be provided given the smaller magnitude of the secondary changes. However, FIRM recommended that AE should be required to provide a narrative explanation, with the associated formula to be applied, to show how each of the line item change impacts each test year where there were secondary impacts was calculated.

In addition, FIRM recommended that AE be required to provide references to the "Application" numbers (i.e. specific Schedules and line numbers) shown on Schedule BD-61 which were used as the starting points for the revenue requirement changes. FIRM submitted that providing the above information would allow the Board and all parties to confirm the changes AE was proposing without causing an undue delay and a significant amount of extra work for all parties.

63.1 Views of the Board - DIRECTION 61 – APPLC'N Vs. APPROVED REVENUE

The Board considers that AE has substantially complied with Direction 61 given the magnitude of the secondary impacts. The Board accepts that the electronic schedules provided in the Refiling are all linked and are the same model as that used in the GTA itself with the secondary impacts calculated automatically by the model with no input by AE staff.

Therefore, the Board considers that AE has complied with Direction 61.

64 DIRECTION 62 – SUMMARY SHOWING VARIOUS REVENUE RELATED ITEMS IN THE APPLICATION COMPARED TO THE REFILING

The following direction was provided in Decision 2003-071:

> *Further, the Board directs ATCO Electric, in its Refiling, for each of Transmission and Distribution, to provide the following summary comparisons for the Board-approved 2003 and 2004 values:*
>
> - *Compared to the actual revenue collected from customers in 2001 and 2002 and the percent change year over year. Show base rate revenue and rider revenue separately as well as in total. A brief discussion of the major changes year over year.*
> - *Compared to the actual load by customer class in 2001 and 2002.*
> - *Compared to the Application by major revenue requirement category.*

Views of the Parties

AE

A comparison of actual revenues and load for 2001 and 2002 actuals as well as the 2003 and 2004 Board approved values is shown on Schedule BD-62.

A comparison to the application by major revenue requirement category is shown in response to Direction #61 setting out the detailed reconciliation of the revenue requirement requested to the revenue requirement approved by the Board.

A brief discussion of the major changes year over year is as follows:

Residential

An increase in the average number of customers, coupled with a rise in the average use per customer brought on by cold weather, resulted in a 38 GW.h increase in residential energy deliveries in 2002. In 2003, the major reason for a 7 GW.h increase in deliveries forecast is customer additions, driven by a continued economic growth. The average use per customer is forecast to drop in 2003 as a result of a more normal temperature forecast. In 2004, energy deliveries growth of 20 GW.h is forecast to be attributed almost entirely to a customer number increase, as the average use per customer is forecast to remain virtually unchanged.

Commercial

An increase in the average number of customers, coupled with a rise in the average use per customer, resulted in a 31 GW.h increase in commercial energy deliveries in 2002. In 2003, increased customer counts and increased average use per customer, is forecast to raise energy deliveries by 42 GW.h. In 2004, an increase in the number of customers as well as the average use per customer is forecast to equally drive commercial energy deliveries growth of 37 GW.h.

Industrial

Increased deliveries in the forest and oilfield industries, partially offset by a drop in the gas and oil processing sector, were the main reasons for a 53 GW.h increase in the total industrial sales in 2002. In 2003, the loss of a major oilsands customer (becoming a TA customer) is the primary reason for a 450 GW.h drop in the forecast. A modest broad-based rebound of 80 GW.h is forecast in 2004, led by the transportation and oilfield industries.

Farm

The drought of 2002 caused a sharp drop in the average usage in the farm sector. However, this was more than offset by an increase in the number of customers, resulting in a 7 GW.h gain in farm energy deliveries. A growth in the number of customers in 2003 is forecast to more than offset a small drop in the average usage, resulting in a 10 GW.h increase in energy deliveries in 2003, followed by an additional 0.6 GW.h increase in 2004.

Lights

Energy deliveries in this class rose modestly in 2002. Energy deliveries are expected to grow faster over the forecast period.

AE will provide a comparison on a rate class basis at the time of its Phase II filing. AE is unable to compare revenue on a rate class basis at this time as the Phase II allocation of costs to determine the share of Board approved revenue requirement which will be allocated to each of its rate classes has not been completed.

Transmission

AE indicated that since the revenue collected for Transmission tariffs comes entirely from the TA comparisons by customer class are not applicable. A comparison to the application by major revenue requirement category is shown in response to Direction #61 setting out the detailed reconciliation of the revenue requirement requested to the revenue requirement approved by the Board.

FIRM

FIRM stated that AE had not provided the comparison to the 2003 and 2004 Forecast Revenue based on the GTA Application assumptions.

FIRM recommended that AE should be required to provide a table showing the 2003 and 2004 revenue from the Application as well as reconciliation to the various directions that show how the Refiling revenue was derived, by rate class, starting from the Application revenue.

In response to intervener concerns, AE indicated that the Phase II portion of a GTA is where the revenue requirement is allocated to rate classes during the Cost of Service study. It is not until this step has been completed that the amount of revenue, which is forecast to be collected from each rate class will be known. As such, at this time AE cannot do the comparison requested in Board Direction No. 62, but will do so at the time that it submits its Phase II application.

64.1 Views of the Board - DIRECTION 62 – SUMMARY APPLCN Vs REFILING

The Board notes that AE has provided the information required under the directions that was available at the time of the refiling. Therefore, the Board considers that AE has complied with Direction 62.

However, the Board considers that a further comparison in a table showing the 2003 and 2004 revenue from the Application as well as reconciliation to the various directions that show how the Refiling revenue was derived, by rate class, starting from the Application revenue, would be desirable.

The Board notes that this level of detail is not available until the Phase II allocations have been completed and the Board, therefore, directs AE to provide these in its Phase II Filing.

65 DIRECTION 63 – ANTICIPATED IMPACT OF RATE CHANGES

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to file a summary of the estimated change by rate class of the impact of known and anticipated rate changes to be effective during the remainder of 2003 and during 2004. This summary should include an estimate of any base rate or rider changes or applications, including the AESO deferral account refund from its current application. The Board expects that a short narrative explanation of changes shall accompany the financial amounts. ATCO Electric shall use the standard rate comparisons by low, average and high use customers in each rate class that has been required by the Board in recent decision. A breakout of the components of the reason for the rate changes should be shown.*

Views of the Parties

AE

AE indicated that, to illustrate the impact on rates by rate class, AE used the approach it applied for in its Interim 2004 Rider and Interim 2004 Tariff proposal, dated October 31, 2003:

- Keep the same Interim DT rates for January 2004 as are currently in place. AE will be applying for revised Interim 2004 DT rates shortly after it receives the Final Board Decision on its 2003-2004 DTA Phase I.
- Delay the implementation of a new Rider G until early 2004 as well, so that certain deferral amounts may be finalized through Board Decisions in the meantime.

AE proposed this approach to stabilize customer rates and minimize the frequency of changes to its tariffs, riders, and customer bills.

As such the only change for billing of January 2004 consumption compared to December 2003 will be the elimination of the 2002 and 2003 Regulated Rate Option riders, which are to apply only to consumption up to December 31, 2003. As these riders are a deferral collection, their termination will have the impact of reducing typical customer bills. AE indicated the impact of these changes in Schedules 63.1-63.14.

AE also indicated that it would include a further updated set of rate comparison sheets at the time it applies for its 2004 Interim Rider and revised 2004 Interim Tariff in early 2004, which would capture the impact of AE's applied for Rider and revised 2004 Interim Tariff.

FIRM

FIRM noted that while AE was directed to estimate the impact of the AESO deferral account refund, AE chose to put in an amount of $0. FIRM submitted that AE should provide an estimate for at least this direct impact on AE and should also be directed to provide the short narrative for each rate class explaining the amount/ percentage reduction for each rate class for each customer consumption amount assumed.

65.1 Views of the Board - DIRECTION 63 –IMPACT OF RATE CHANGES

The Board notes that there are a number of other matters in addition to the AESO deferral account that will impact rates in 2004, some of which were set out in AE's in its 2004 Interim Tariff application of October 31, 2003.

The Board accepts that AE's approach of providing all of the estimates at the time it applies for its 2004 Interim Rider and revised 2004 Interim Tariff is logical. The Board considers that if AE follows that approach, it will comply with the intent of Direction 63.

Accordingly, the Board directs ATCO Electric, in its 2004 Interim Rider and revised 2004 Interim Tariff filing, to file a summary of the estimated change by rate class of the impact of known and anticipated rate changes to be effective during 2004. This summary should include an estimate of any base rate or rider changes or applications, including the AESO deferral account refund from its current application. The Board expects that a short narrative explanation of changes shall accompany the financial amounts. ATCO Electric shall use the standard rate comparisons by low, average and high use customers in each rate class that has been required by the Board in recent decision. A breakout of the components of the reason for the rate changes should be shown.

66 DIRECTION 64 – OPTIONS FOR RATE ADJUSTMENTS

The following direction was provided in Decision 2003-071:

> *The Board directs ATCO Electric, in its Refiling, to provide the Board with options for rate adjustments that would arise from this Decision. These options should include an early interim adjustment to all rate classes pending a final Phase II proceeding or deferral of adjustments until a final Phase II proceeding. The Board expects ATCO Electric to outline the potential impact on customer rates including the settlement of any deferral account balances from either of these options. The Board prefers to avoid unnecessarily deferring rate adjustments that would arise from large deferral accounts. Further, the Board would prefer to have a single adjustment rather than one in late 2003 and another in early January 2004.*

Views of the Parties

AE

AE addressed this Refiling item in its 2004 Interim Tariff application of October 31, 2003, wherein it proposed to continue with its existing Distribution Tariff rates through January 2004, as well as delaying the implementation of its Interim Rider G. AE has submitted rate impact schedules as part of Refiling Direction 63 which show the impact its proposal will have on typical customer bills comparing billing of December 2003 consumption to billing of January 2004 consumption. The only change will be a reduction in monthly bills to those customers who are currently paying the 2002 and/or 2003 Regulated Rate Option Deferral collection riders, which apply for consumption until December 31, 2003. For consumption beyond this date, customers will see a decrease in their average monthly bill.

In its October 31, 2003 application, AE suggested that an implementation date of April 1, 2004 could be possible for revised 2004 Interim rates and Rider G, depending upon the timing of certain Board Decisions. At the time of its application for revised 2004 Interim rates and Rider G, AE will supply updated rate impact schedules which show how bills are anticipated to change once revised 2004 Interim DT rates and Rider G are implemented.

FIRM

FIRM noted that while AE provided a proposed solution to deal with rate adjustments, AE did not provide other options with a discussion of the pros and cons of these options. FIRM submitted that AE's comment that customers will generally see a decrease in their monthly bills is not sufficient to support that AE's option is appropriate or optimal when compared to other potential options.

FIRM recommends that AE should discuss in more detail, with the pros and cons and associated rate impacts, other options for implementation of the rate adjustments required from this Decision.

66.1 Views of the Board - DIRECTION 64 – OPTIONS FOR RATE ADJUSTMENTS

The Board considers that AE has complied with the intent of the direction in its 2004 Interim Tariff Application of October 31, 2003.

Therefore, the Board considers that AE has complied with Direction 67.

67 DIRECTION 65 – PLACEHOLDER DISCUSSION

The following direction was provided in Decision 2003-071:

> *With respect to the various placeholders approved in this Decision, the Board directs ATCO Electric, in its Refiling, to provide a summary that includes the following:*
>
> - *The placeholder item and amount,*
> - *The reference to the Decision section and page,*
> - *The procedure and timing expected for resolution, and*
> - *The summary of the cost of all placeholders compared to the total revenue requirement.*

Views of the Parties

AE

The summary of the placeholder amounts for Distribution was included on BD-65_Schedule-1 as reproduced below:

Table 37. AE Refiling - Summary of Distribution Placeholder Amounts

Summary of Placeholder Amounts Distribution			Placeholder Amount	
			2003	2004
Page Reference of Decision	Placeholder Item	Timing and Process	$000	
Matters handled in Other Proceeding <Per Board Direction 60>				
6	Retail Sale (Note 1)	As per Direction 60		
7	Executive Compensation (Note 2)	As per Direction 60	490	510
24	ATCO I-Tek Information Technology	As per Direction 60	5,438	5,591
14	ATCO I-Tek Business Services Billing & Customer Care (Note 3)	As per Direction 60	11,529	11,326
46/47 & 54	Capital Structure/Rate of Return	As per Direction 60		55,600
Matters handled through Deferral Accounts				
199	Transmission Access Payments (Note 4)	As outlined in ATCO Electric's 2003/2004 GTA, the deferral account balances in each year will be filed with the Board by June 30 of the following year.	65,600	66,500
71	Income Tax Rates (Note 5)	The timing and process will follow the timing and process for TAP deferral outlined above		
62	Rainbow-Type Expenditures	The timing and process will follow the timing and process for TAP deferral outlined above	483	909
151	Insurance Premium in Reserve (Note 6)	Differences between the actual insurance premiums and the forecast premium will flow through the reserve account and be dealt with at ATCO Electric's next GTA.	1,320	1,418
Total Placeholder Amounts			**84,860**	**141,854**
Total Revenue Requirements per this Refiling			233,400	239,500

Note 1: The impact of sale of the retail functions was estimated at $1.0 million for 2003 and $0.2 million for 2004 in ATCO Electric's December 18, 2002 letter to the Board. There are therefore no placeholder amounts as the 2003/2004 GTA was based on the assumption that there will be no retail sale amounts included in the application.

Note 2: Allocation to Transmission and Distribution as per Revised Schedule 26-E-2 of the application.

		2003	2004
Transmission	Placeholder Amount x 45%	401	418
Distribution	Placeholder Amount x 55%	490	510
Placeholder Amount per Direction 60		891	928

Note 3: Placeholder amounts as per ATCO Electric's March 28, 2003 letter to the Board.

Note 4: Placeholder amounts per Schedule 14-B-1 of this refiling.

Note 5: As it is the announced tax rate only that is a placeholder and not the taxable income amount, no dollars have been shown as a placeholder amount.

Note 6: Placeholders per Schedule 22-B-7 of the 2003-2004 GTA:

Note 7: Rate hearing reserve as well as the Reserve for Injuries and Damages have not been considered placeholder amounts for this Schedule given that the 2003/2004 revenue requirement will not be impacted for changes between forecast and actual amounts.

The summary of the placeholder amounts for Transmission was included on BD-65_Schedule 2 as reproduced below:

Table 38. AE Refiling - Summary of Transmission Placeholder Amounts

Summary of Placeholder Amounts Transmission

Page Reference of Decision	Placeholder Item	Timing and Process	**Placeholder Amount** **2003** $000	 **2004**
Matters handled in Other Proceeding <Per Board Direction 60>				
6	Retail Sale (Note 1)	As per Direction 60		
7	Executive Compensation (Note 2)	As per Direction 60	401	418
24	ATCO I-Tek Information Technology	As per Direction 60	2,548	2,432
46/47 & 54	Capital Structure/Rate of Return	As per Direction 60		71,100
Matters handled through Deferral Accounts				
79	Transmission Capital Deferral (Note 2)	As outlined in ATCO Electric's 2003/2004 GTA, the deferral account balances in each year will be filed with the Board by June 30 of the following year.	2,724	12,360
71	Income Tax Rates (Note 5)	The timing and process will follow the timing and process for TAP deferral outlined above		
62	Rainbow-Type Expenditures	The timing and process will follow the timing and process for Transmission Capital Deferral outlined above	445	906
151	Insurance Premium in Reserve (Note 4)	Differences between insurance premiums and the forecast premium will flow through the reserve account and be dealt with at ATCO Electric's next GTA.	1,320	1,418
Sched 4-B-3	Isolated Fuel	The timing and process will follow the timing and process for Transmission Capital deferral outline above	7,000	6,700
Total Placeholder Amounts			14,438	95,334
Total Revenue Requirements per this Refiling			143,600	158,500

Note 1: Per Note 2, Schedule 1, page 2 of 2 or AE's Refiling.

Note 2: Please refer to Table 39 schedule for placeholder amounts.

Note 3: As it is the announced tax rate only that is a placeholder and not the taxable income amount, no dollars have been shown as a placeholder amount.

Note 4: Placeholders per Schedule 22-B-7 of the 2003-2004 GTA:

Note 5: Rate hearing reserve as well as the Reserve for Injuries and Damages have not been considered placeholder amounts for this Schedule given that the 2003/2004 revenue requirement will not be impacted for changes between forecast and actual amounts.

In AE's January 26, 2004 filing, AE indicated that, in response to FIRM, it was providing a summary that includes the references to the derivation of each of the amounts. Notes 1 and 3 also detail updates to certain placeholders. The timing and process of each of the placeholders has not changed and will remain the same as that used on Schedules 1 and 2 of Board Direction No. 65.

Table 39. AE Refiling – Total Placeholder Amounts with References

		2003		2004	
	Reference	**Transmission**	**Distribution**	**Transmission**	**Distribution**
Executive Compensation	Note 1	396	483	412	503
ATCO I-Tek Information Technology	Board Direction 7 Schedule 2	2,548	5,438	2,432	5,591
ATCO I-Tek Business Services Billing and Customer Care	Application Schedule 29-B-1	N/A	11,529	N/A	11,326
Capital Structure/Rate of Return	Note 2	N/A	N/A	71,100	55,600
Transmission Access Payments	Refiling-Revised Schedule 12-B-1	N/A	65,600	N/A	66,500
Transmission Capital Deferral	Board Direction 65 Schedule 2 Attachment	2,724	N/A	12,360	N/A
Rainbow-type Expenditures	Refiling Schedule 28-B-4	445	483	906	909
Insurance Premium in the Reserve	Application – Schedule 22-B-7 (Note 3)	1,865	1,320	2,002	1,418
Isolated Fuel	Refiling-Revised Schedule 4-B-1	7,000	N/A	6,700	N/A
Total Placeholder Amount		14,978	84,853	95,912	141,847

Note 1: This amount has been updated from the amount in the refiling to reflect ATCO Electric's response to CAL-ATCO-15 of Executive Compensation Review proceeding. In that response, ATCO Electric agreed that the placeholder amounts used in the December 1, 2003 refiling have to be updated to reflect the change in corporate cost allocations. The total placeholders are now as follows:

2003 - $879 and 2004 - $915. These ATCO charges are allocated to Transmission and Distribution in accordance with the percentages shown on Schedule 24-E-2 of the Application. These percentages are 45% for Transmission and 55% for Distribution.

Note 2:

Table 40. Placeholders for 2004 Cost of Capital and Return

	Transmission 2004			Distribution 2004		
	Return (a)	Pre Tax Rate (b) (1-Tax Rate)	Before Tax Return (a)/(b)	Return (c)	Pre Tax Rate (d)	Before Tax Return (c)/(d)
Long Term Debt	34.2	1.0	34.2	24.7	1.0	24.7
Preferred Stock	2.6	0.6725	3.9	2.2	0.6725	3.3
Common Stock Equity	22.2	0.6725	33.0	18.6	0.6725	27.6
Placeholder Amount			71.1			55.6

The return amounts are from Revised Schedule 26-E-1 of the Refiling. As shown on Revised Schedules 7-B-2 and 17-B-2 of the refiling, the tax rates used were as follows: Federal 21%, Provincial 11.75%, Total 32.75%.

Note 3: The Transmission placeholder amounts included in the refiling were incorrect as they were actually the Distribution amounts. This response has been updated to reflect the correct amounts that are shown on Schedule 22-B-7 of the Application.

FIRM

FIRM stated that its comments for Board Direction No. 65 were the same as those that it had for Board Direction No. 60.

67.1 Views of the Board - DIRECTION 65 – PLACEHOLDER DISCUSSION

The Board finds that the Distribution placeholder schedule filed by AE does not include a placeholder for the $1.175 million RRT contribution margin as directed in Decision 2003-071. The Board also notes that as a result of this Refiling Decision, the $3,904,500 lease payment should be included as a placeholder amount for 2003 and 2004.

Therefore, the Board directs AE to reconcile each amount through AE's placeholder deferral account to the final amounts approved by the Board for each placeholder in future processes. Further, the Board directs AE to file a revised placeholder schedule that includes the $1.175 million RRT contribution margin and the $3,904,500 lease payment when AE files its interim rate application and Phase II application as ordered in this Decision.

68 OTHER MATTERS – RECALCULATION OF AFUDC

Views of the Parties

AE

Although no direction was provided in the Decision with respect to reduction in AFUDC, AE has updated its forecast 2003 and 2004 capital expenditures and capital additions to include the impact of the weighted average cost of capital approved by the Board. The lower cost of capital approved results in lower AFUDC and therefore lower capital expenditures and capital additions compared to the December 2002 Refiling.

The revised AFUDC is shown on the Revised Schedules 9-B-3 and 19-B-3 and has been incorporated into the refiled rate base amounts. The impact is shown in the reconciliation in Direction 61.

FIRM

FIRM did not oppose AE's calculations.

68.1 Views of the Board - OTHER MATTERS – RECALCULATION OF AFUDC

The Board agrees with AE that it is appropriate to use the approved weighted average cost of capital in calculating AFUDC as AE has done in the Refiling.

69 SUMMARY OF NEW DIRECTIONS

This section is provided for the convenience of readers. In the event of any difference between the new Directions in this section and those in the main body of the Decision, the wording in the main body of the Decision shall prevail.

1. Within 30 days of a decision being rendered on each placeholder item, the Board directs AE to file its calculation of the difference between the final amount and the placeholder(s) that AE will place in the placeholder deferral account. 4
2. The Board directs AE to file a summary of the status of all outstanding directions when it files its next GTA. 5
3. Accordingly, the Board directs AE to provide an update and a recommended process to deal with any required adjustments within 30 days of the closing of the sale. 10
4. Accordingly, the Board directs AE, for both Transmission and Distribution, to file a project-by-project submission of why certain transmission capital expenditures are treated as repair costs for tax purposes while other capital expenditures could not be so treated and are capitalized for tax purposes. This submission is to be made when AE files the Transmission and Distribution tax deferral account reconciliations for 2003 and for 2004, the timing of which should be when AE files its annual filing for adjustments as directed in this Decision. 37
5. The Board considers that AE's proposal is not fully explained in the Refiling. 40
6. Firstly, the Board is not satisfied that the impact on no-cost capital of the forecast deduction of eligible Rainbow-type expenditures for Federal taxes has been accounted for. The Board notes that second order effects are normally accounted for in AE's models and does not consider that an exception should be made in this case. Therefore, the Board directs AE to take into account the increase on no-cost capital, when calculating its tax deferral account adjustment. 40
7. Accordingly, the Board directs AE to fully explain the form and calculation of AE's deferral account and reserve account treatment for both Transmission and Distribution when AE files the Transmission and Distribution tax deferral account reconciliations for 2003, the timing of which should be when AE files its annual filing for adjustments as directed in this Decision. 40
8. This approach will also allow for a Phase II filing and more representative interim rates on a timely basis without further process at this time. 40

9. To avoid any further delay in setting interim rates, the Board directs AE to incorporate the adjustment required to reflect the Board's findings regarding GST impact on working capital in its 2004 filing for adjustments. 55

10. To avoid any further delay in setting interim rates, the Board directs AE to incorporate the adjustment required to reflect the corporate cost allocation reduction of $189k and $199k allocated to AE for 2003 and 2004 as appropriately allocated between Distribution and Transmission in its 2004 filing for adjustments. 69

11. The Board notes that this level of detail is not available until the Phase II allocations have been completed and the Board, therefore, directs AE to provide these in its Phase II Filing. 81

12. Accordingly, the Board directs ATCO Electric, in its 2004 Interim Rider and revised 2004 Interim Tariff filing, to file a summary of the estimated change by rate class of the impact of known and anticipated rate changes to be effective during 2004. This summary should include an estimate of any base rate or rider changes or applications, including the AESO deferral account refund from its current application. The Board expects that a short narrative explanation of changes shall accompany the financial amounts. ATCO Electric shall use the standard rate comparisons by low, average and high use customers in each rate class that has been required by the Board in recent decision. A breakout of the components of the reason for the rate changes should be shown 82

13. Therefore, the Board directs AE to reconcile each amount through AE's placeholder deferral account to the final amounts approved by the Board for each placeholder in future processes. Further, the Board directs AE to file a revised placeholder schedule that includes the $1.175 million RRT contribution margin and the $3,904,500 lease payment when AE files its interim rate application and Phase II application as ordered in this Decision. 87

70 SUMMARY OF DIRECTIONS OUTSTANDING FROM DECISION 2003-071

In the Refiling, AE indicated that it would comply with the following directions that remain outstanding from Decision 2003-071.

Direction 8:

> *The Board directs ATCO Electric to provide the impact on I-Tek volumes in the same manner as contracted (e.g. mainframe services, distributed services, network services, workstation services, and application services) in all future IT application or technology project business cases.*

Direction 10:

> *The Board directs ATCO Electric, at the time of its next GTA, to provide an independent, third party report demonstrating that the lease rates were at or below market value when renewed.*

Direction 12:

> *The Board directs AE, in future GTAs, to provide a summary comparison of any affiliate transactions and the change, if any, in percentage terms, from the rate approved in the last GTA.*

Direction 14:

The Board directs ATCO Electric to provide as part of its next GTA filing:

- *The performance measures and statistics for both TFO and DFO functions that ATCO Electric considers important in the operation of the DFO and TFO functions,*
- *The historical baselines for such measures, and*
- *ATCO Electric's view of the appropriate criteria to adjust historical baseline data for events outside of the control of the wire service provider.*

Direction 15:

Therefore, the Board directs AE to collaborate with the other TFOs for the purposes of forming a working group consisting of TFO and stakeholder representatives to determine what would be required to develop and implement TFO USA that could be used for regulatory filings. This working group should be combined with the working group formed pursuant to the Board's direction in Decision 2003-061 respecting AltaLink. By December 31, 2003, AE and the other TFOs should file an initial report with the Board on the results of study group's efforts in this regard setting out how this matter can be progressed.

Direction 19:

The Board considers that this issue (of a flotation allowance) should be addressed further in the Generic Cost of Capital Proceeding. If this matter is not addressed in the Generic Cost of Capital proceeding, the Board directs ATCO Electric to address this matter in the next GTA.

Direction 35:

The Board notes that there could be some potential savings to be gained from an earlier payment arrangement between ATCO Electric and the AESO. While the Board considers that there could be some merit in implementing such an arrangement, it recognizes that the full impacts and the mechanics of how an earlier payment arrangement might work are still unknown and need to be studies by ATCO Electric and the AESO. Therefore, the Board cannot and will not require this to be done for this GTA. However, the Board directs ATCO Electric to diligently pursue this matter with the AESO with a view to assessing, and possibly designing a new, modified payment arrangement, prior to ATCO Electric's next GTA filing, if possible.

Direction 37:

The Board directs ATCO Electric to commence recording of customer contributions by rate class effective January 1, 2004.

Direction 39:

The Board notes that at least two more years of data will be available for study when ATCO Electric files its 2005 GTA. At that time, the Board considers that ATCO Electric should file a complete depreciation study with all of the electronic data used to determine each of the depreciation parameters it proposes to use in the 2005 test year. Accordingly, the Board directs ATCO Electric to provide a complete new depreciation study, including all electronic files required to reproduce that depreciation study when its 2005 GTA is filed.

Direction 42:

The Board directs ATCO Electric to begin maintaining information regarding the material returned to stores by account on an annual basis so that the potential magnitude of this issue can be assessed. Further, the Board directs ATCO Electric, at its next GTA, to file a thorough analysis of the issue of the appropriate policy for returns to stores, including an analysis of the approach of other utilities to these items.

Direction 43:

The Board directs ATCO Electric, commencing January 1, 2004, to track the level of any costs allocated to the removal of an existing asset when a replacement of that asset is made. Further, the Board directs ATCO Electric, when it files its next depreciation study, to provide that information and explain how it was used.

Direction 44:

Accordingly, the Board directs ATCO Electric to begin maintaining information regarding reimbursed retirements by account on an annual basis so that the potential magnitude of this issue can be recognized. Further, the Board directs ATCO Electric, at its next GTA, to file a thorough analysis of the issue of the appropriate policy for reimbursed retirements.

Direction 45:

The Board directs ATCO Electric, as part of its annual financial report to the Board, to provide (in addition to the total FTEs and O&M costs) the allocation of the labour costs between O&M, Capital and Other.

Direction 48

While the Board does not intend to direct implementation of an unfunded reserve account for payment default as proposed by IPCCAA in this Decision, the Board directs AE to fully address perspectives related to the evolution of the appropriate treatment of its credit risk in its subsequent GTA process.

Direction 49

Further, the Board directs AE, in its next GTA, to re-examine the pension treatment, including an assessment of how the provision could appropriately be handled in the context of total pension funding for the ATCO Group.

71 ORDER

For and subject to the reasons set out in this Decision, IT IS HEREBY ORDERED THAT:

1. On or before March 15, 2004, AE shall file an interim rate application and Phase II application based on the 2004 revenue requirement of $$250.4 million approved in this Decision and a rider to account for all of the adjustments required to reflect the known/forecast impacts of other Board Decisions and deferral account reconciliations.

Dated in Calgary, Alberta on February 17, 2004

ALBERTA ENERGY AND UTILITIES BOARD

AJBerg

A. J. Berg, P. Eng.
Presiding Member

JDDilay

J. D. Dilay, P. Eng.
Member

JR Nichol

J. R. Nichol, P. Eng.
Member